Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

Independent Auditor's Report

To the Shareholders of Oando Energy Resources Inc.

We have audited the accompanying consolidated financial statements of Oando Energy Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Oando Energy Resources Inc. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Oando Energy Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31, 2015

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Management's Responsibility for Financial Reporting

The management of Oando Energy Resources Inc. is responsible for the preparation of the consolidated financial statements. The accompanied consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include certain estimates that reflect management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects.

Management is responsible for the integrity of the consolidated financial statements. Management has developed and maintains an extensive system of internal accounting controls that provide reasonable assurance that all transactions are accurately recorded, that the consolidated financial statements realistically report the Corporation's operating and financial results and that the Corporation's assets are safeguarded from loss or unauthorized use.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was appointed to audit the consolidated financial statements of the Corporation and to provide an independent professional opinion. PricewaterhouseCoopers LLP was appointed to hold such office until the next such annual meeting of the shareholders of the Corporation.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with management and PricewaterhouseCoopers LLP. The members of the Audit Committee are composed of independent directors who are not employees of the Corporation. The Board of Directors has approved the information contained in the consolidated financial statements based on the recommendation of the Audit Committee.

(signed)"Olapade Durotoye"
Chief Executive Officer
March 31, 2014

(signed) "Adeola Ogunsemi"
Chief Financial Officer
March 31, 2014

Table of Contents

Consolidated Financial Statements

Consolidated Statements of Financial Position 4
Consolidated Statements of Comprehensive Loss 5
Consolidated Statements of Changes in Equity 6
Consolidated Statements of Cash Flows 7

Notes to the Consolidated Financial Statement

1. Reporting entity and going concern 8
2. Basis of presentation 10
3. Summary of significant account policies 10
4. Critical accounting estimates and judgments 17
5. Business combinations 21
6. Trade and other receivables 22
7. Inventory 23
8. Derivative financial instruments 23
9. Finance lease receivable 26
10. Property, plant and equipment 27
11. Exploration and evaluation assets 28
12. Interest in Qua Ibo 29
13. Other long term receivables 30
14. Goodwill 30
15. Trade and other payables 31
16. Income taxes 31
17. Borrowings 34
18. Decommissioning obligations 37
19. Other long term payables 37
20. Share capital 37
21. Financial instruments and risk management 40
22. Capital management 44
23. Related party transactions 45
24. Revenue 47
25. General and administrative expenses 48
26. Net financing income (expense) 48
27. Supplemental cash flow information 49
28. Commitments 49
29. Contingencies 50
30. Events occurring after the reporting period 51
31. Comparative information 51

Oando Energy Resources Inc.

Consolidated Statements of Financial Position

As at December 31, 2014 and 2013

Thousands of US dollars

	Note	December 31, 2014	December 31, 2013
Current assets			
Cash and cash equivalents		31,363	12,677
Trade and other receivables	6	238,911	37,738
Inventory	7	6,329	1,478
Derivative financial instruments	8	299,949	-
		576,552	51,893
Non-current assets			
Property, plant and equipment	10	1,108,591	249,388
Exploration and evaluation assets	11	155,210	345,457
Interest in Qua Ibo	12	53,442	40,485
Finance lease receivable, non-current	9	195,727	-
Restricted cash	21	48,481	4,846
Other long term receivables	13	76,659	135,969
Deferred tax assets	16	7,091	14,590
Goodwill	14	1,021,038	6,794
Deposit paid for acquisition		-	450,000
		2,666,239	1,247,529
Total Assets		3,242,791	1,299,422
Current liabilities			
Trade and other payables	15	387,533	213,169
Current tax payable	16	204,765	1,074
Derivative financial instruments	8	-	2,555
Borrowings, current	17	551,480	496,099
		1,143,778	712,897
Non-current liabilities			
Borrowings, non-current	17	250,126	124,776
Decommissioning obligations	18	59,895	27,197
Other long term payables	19	49,252	49,219
Deferred tax liability	16	729,723	74,003
		1,088,996	275,195
Total liabilities		2,232,774	988,092
Shareholders' equity			
Share capital	20	902,607	5,714
Share issue cost reserve		(6,505)	(7,302)
Share based payment reserve		6,021	4,953
Warrant reserve		119,970	-
Contribution from parent		628,129	628,129
Retained deficit		(638,139)	(321,639)
		1,012,083	309,855
Non-controlling interests		(2,066)	1,475
Total shareholders' equity		1,010,017	311,330
Total Liabilities and Shareholders' equity		3,242,791	1,299,422

The accompanying notes are an integral part of these consolidated financial statements. Refer to Going Concern uncertainty at Note 1.

(signed) "Christopher J.F. Harrop" Director *(signed) "Bill Watson" Director*

Director Director

Oando Energy Resources Inc.
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2014 and 2013
Thousands of US dollars, except per share data

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Revenue	24	421,422	127,211
Production expenses		(152,932)	(29,962)
General and administrative costs	25	(69,953)	(22,146)
Acquisition costs	5, 31	(84,860)	(20,437)
Bad debt expense		(48,593)	-
Depletion, depreciation and amortization		(88,672)	(31,513)
Impairment of assets	10,11,12	(462,783)	-
Net gains on financial instruments	8, 31	288,254	3,650
Net financing expenses	26, 31	(125,532)	(54,015)
		(745,071)	(154,423)
Loss before income tax		(323,649)	(27,212)
Income tax (expense) / recovery	16	3,608	(11,018)
Loss for the period		(320,041)	(38,230)
Comprehensive income / (loss) attributable to:			
Owners of the parent		(316,500)	(38,537)
Non-controlling interests		(3,541)	307
		(320,041)	(38,230)
Net loss per share			
Basic	20	(0.53)	(0.36)
Diluted	20	(0.53)	(0.36)

The accompanying notes are an integral part of these consolidated financial statements.

Oando Energy Resources Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2014 and 2013
Thousands of US dollars

	Attributable to common shareholders of the Corporation									
	Share capital	Share capital of combined entity	Share based payment reserve	Share issuance cost reserve	Warrants Reserve	Contribution from Oando PLC	Retained earnings (deficit)	Total	Non-controlling interest	Total equity
Balance, January 1, 2013	5,714	128	1,843	-	-	629,309	(283,102)	353,892	1,168	355,060
Net income / (loss) for the year	-	-	-	-	-	-	(38,537)	(38,537)	307	(38,230)
Total comprehensive income / (loss)	-	-	-	-	-	-	(38,537)	(38,537)	307	(38,230)
Acquisition of subsidiary	-	(128)	-	-	-	(1,180)	-	(1,308)	-	(1,308)
Share issue costs	-	-	-	(7,302)	-	-	-	(7,302)	-	(7,302)
Value of employee services	-	-	3,110	-	-	-	-	3,110	-	3,110
Total contributions recognized directly in equity	-	(128)	3,110	(7,302)	-	(1,180)	(38,537)	(44,037)	307	(43,730)
Balance, December 31, 2013	5,714	-	4,953	(7,302)	-	628,129	(321,639)	309,855	1,475	311,330
Balance, January 1, 2014	5,714	-	4,953	(7,302)	-	628,129	(321,639)	309,855	1,475	311,330
Net income / (loss) for the year							(316,500)	(316,500)	(3,541)	(320,041)
Total comprehensive income / (loss)	-	-	-	-	-	-	(316,500)	(316,500)	(3,541)	(320,041)
Share issue	896,893	-	-	-	-	-	-	896,893	-	896,893
Share issue costs	-	-	-	797	-	-	-	797	-	797
Value of employee services	-	-	1,068	-	-	-	-	1,068	-	1,068
Warrants reclassified to equity	-	-	-	-	119,970	-	-	119,970	-	119,970
Total contributions recognized directly in equity	896,893	-	1,068	797	119,970	-	(316,500)	702,228	(3,541)	698,687
Balance, December 31, 2014	902,607	-	6,021	(6,505)	119,970	628,129	(638,139)	1,012,083	(2,066)	1,010,017

The accompanying notes are an integral part of these consolidated financial statements.

	Note	Year ended December 31, 2014	Year ended December 31, 2013
Net loss before tax for the year		**(323,649)**	**(27,212)**
Non-cash items:			
Depreciation, depletion and amortization		88,672	31,513
Impairment loss		462,783	-
Decommissioning liabilities: Unwinding of discount		4,791	2,075
Finance expenses		127,147	52,288
Net income on lease receivable		(969)	
Unrealized fair value gain on derivatives		(270,431)	(3,650)
Net foreign exchange gain		2,157	(344)
Gain on disposal of property plant and equipment		(2)	(4)
Provision for doubtful debt		48,593	-
Share based payments		1,068	3,110
Income taxes paid		(38,857)	(5,144)
Net changes in working capital	27	14,784	24,777
Cash flows from operating activities		**116,087**	**77,409**
Equity issuance cost		797	(7,302)
Proceeds from share issuance		50,000	
Decrease / (increase) in restricted cash		(43,635)	11,688
Proceeds from borrowings		1,412,848	165,579
Repayments of borrowings		(314,093)	(49,704)
Transaction costs on borrowings		(53,177)	
Interest payments		(59,426)	(15,462)
Net change in non-cash working capital	27	(6,006)	-
Cash flows from financing activities		**987,308**	**104,800**
Corporate acquisitions, net of cash		(942,928)	
Property, plant and equipment expenditures		(133,649)	(91,484)
Qua Ibo capital expenditures		(14,744)	(21,851)
Exploration and evaluation asset expenditures		(7,735)	(6,620)
Proceeds on sale of property plant and equipment		51	217
Change in deposit for acquisition		-	(15,000)
Net changes in working capital	27	14,296	(39,492)
Cash flows from investing activities		**(1,084,709)**	**(174,230)**
Net increase / (decrease)		**18,686**	**7,979**
Cash and cash equivalents, beginning of year		12,677	4,698
Cash and cash equivalents, end of year		**31,363**	**12,677**

The accompanying notes are an integral part of these consolidated financial statements.

1. Reporting entity and going concern

(a) General information

Oando Energy Resources Inc. ("OER") is a publicly traded company with common shares and warrants listed on the Toronto Stock Exchange ("TSX") under the symbols "OER" and "OER.WT", respectively. OER was incorporated under the laws of Canada. OER's registered office is located at 3400, First Canadian Center, 350 7th Avenue SW, Calgary AB, T2P 3N9, Canada and head office is located at 1230, 112 4th Avenue SW, Calgary, AB, T2P 0H3, Canada. OER and its subsidiaries are involved in the acquisition of petroleum and natural gas rights, the exploration for and development and production of oil and natural gas primarily focused in Nigeria and São Tomé and Príncipe. The ultimate parent company is Oando PLC, who owned 93.8% of the share capital of the Corporation at December 31, 2014 and is the ultimate controlling party. Unless otherwise noted, all references to the "Corporation" mean OER and its subsidiaries.

The consolidated financial statements include financial information of the Corporation and its subsidiaries including a proportionate share of its investments in joint operations. Oando PLC owns Class A shares of certain entities consolidated by the Corporation which provides it with 60% of the voting rights but no rights to receive dividends or distributions from these entities except on liquidation or winding up. The Class B shares of these entities, which are indirectly owned by the Corporation, entitle the Corporation to 40% of the voting rights and 100% of the rights to receive dividends and distributions. The Corporation controls these entities through shareholder agreements which are filed on www.sedar.com under "Oando Energy Resources Inc." Further information on the Corporation and its subsidiaries can be found in the Annual Information Form ("AIF") filed on www.sedar.com and below.

(b) Going concern

These financial statements have been prepared using International Financial Reporting Standards that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

For the year ended December 31, 2014, the Corporation had a working capital deficiency of $567.2 million (2013 – $661.0 million), and an accumulated deficit of $638.1 million (2013 – $321.6 million). In addition to its on-going working capital requirements, the Corporation must secure sufficient funding to fund ongoing operations and commitments (refer to Note 28 for details of commitments) and repay at least $205.9 million in current borrowings as set out by loan repayment schedules. An additional $345.6 million of borrowings was reclassified to current borrowings as a result of debt covenant breaches (refer to Note 17 for further details); the breach of the covenant gave the lenders associated with the $450 million loan the ability to accelerate the maturity of the loan on demand. However, the lenders chose not to exercise the rights to exercise their acceleration rights under that facility and the Corporation received a waiver of the current ratio requirement for the December 31, 2014 calculation at March 31, 2015. If there is no further waiver of covenants, the Corporation will need to apply the normal covenant at June 30, 2015. There can be no assurances that the Corporation will not again be in breach its covenants at June 30, 2015.

The Corporation has incurred significant levels of debt financing to finance on-going operations and the acquisition of certain Nigerian assets previously owned by ConocoPhillips Company (the "COP Acquisition") (refer to Note 5). Furthermore, the decline in global oil prices in 2014 has reduced cash flows from operations and has impacted the recoverability of oil and gas assets resulting in an impairment charge of $462.8 million in 2014 (refer to Note 10, 11 and 12). Global oil prices could remain at current low levels for 2015 and possibly longer, further impacting revenues and operating cash flows throughout 2015 and the ability of the Corporation to repay amounts due and its various debt facilities. These circumstances lend significant doubt as to the ability of the Corporation to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In 2014, the Corporation exercised the conversion option on borrowing agreements with Oando PLC which resulted in the settlement of $867 million of principal through the issuance of shares and warrants (refer to Note 17) and secured equity financing in the form of a $50 million private placement with arm's length investors completed on February 26, 2014 for which the proceeds have been used to fund the COP Acquisition and on-going working capital requirements. In addition, subsequent to December 31, 2014, the Corporation entered into an early settlement and reset arrangements with hedging counterparties which resulted in the receipt of $234 million in cash which was used to repay existing debt obligation (refer to Note 30). Finally, the Corporation has obtained a waiver on the debt covenant breaches associated with its $450 million loan facility as described above. Despite these actions, the Corporation's outstanding borrowings remain significant as do the funds required to fund ongoing operations and commitments.

These undertakings are not sufficient in and of themselves to enable the Corporation to fund all aspects of its operations and, accordingly, management is pursuing other financing alternatives to fund the Corporation's commitments and operations so it can continue as a going concern. Management plans to secure the necessary financing through the issue of new equity or debt instruments. Nevertheless, there is no assurance that these initiatives will be successful. The Corporation's ability to continue as a going concern is dependent upon its ability to fund the repayment of existing borrowings, secure additional financing and generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

(c) Foreign operations

The Corporation's producing crude oil properties and operations are located in Nigeria. As such, the Corporation is subject to significant political, economic and other uncertainties relating to foreign operations conducted in Nigeria. There can be no assurance that the Corporation will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on the Corporation's financial position, results of operations and cash flows.

The Corporation's operations may be affected by varying degrees of political instability. These risks and uncertainties include military repression, political, and labor unrest, military coups, terrorism, hostage taking and expropriation. Any changes in regulations or shifts in political conditions are beyond the control of the Corporation and may adversely affect its business and its interests. Operations may be affected by varying degrees of government regulations with respect to restrictions on production, price controls, export controls, expropriation of property, environmental legislation, safety factors and other risk factors common to developing countries.

(d) Subsidiaries

The consolidated financial statements include financial information of Oando Energy Resources Inc. and its subsidiaries including a proportionate share of its investments in joint operations. Principal operating subsidiaries of the Corporation are included in the table below. The operations and country of incorporation for all entities listed below is Nigeria unless otherwise noted. The entities included are involved in the acquisition of petroleum and natural gas rights, the exploration for and development and production of oil and natural gas.

		Proportion of ordinary shares held by:		
Operating Subsidiary	Nature of Business	The Corporation	Oando PLC	Non-Controlling Interests
Oando Production and Development Company Limited[1]	Working interest in OML 56 (Ebendo Field), onshore property in the production stage	38%	57%	5%
Oando Hydrocarbon Limited[1]	Working interest in OML 60, 61, 62, and 63, onshore properties in the production stage	40%	60%	-
Oando OML 125 & 134[1]	Working interest in OML 125 (offshore, production stage) and OML 134 (offshore, development stage)	40%	60%	-
Oando Akepo Limited[1]	Working interest in OML 90 (Akepo Field), offshore property in the development stage	40%	60%	-
Oando Qua Ibo Limited[1]	Working interest in OML 13 (Qua Ibo), onshore property in the development stage	40%	60%	-
Equator Exploration Limited[2]	Working interest in OML 122 (offshore, development stage), OPL 321 and 323 (offshore, exploration stage) and JDZ Block 2, STP Block 5, and STP Block 12 (offshore, exploration)	81.5%	-	18.5%
OML 131 Limited/Medal Oil Limited[1]	Working interests in OML 131, offshore property in the exploration stage	40%	60%	-
Oando Deepwater Exploration Nigeria Limited[1]	Working interest in OML 145, offshore property in the exploration stage	40%	60%	-
Oando Reservoir and Production Services Limited[1]	Reservoir and product ion services to oil and gas companies	40%	60%	-

[1]The Corporation controls this entity through a shareholder agreement. Refer to Note 4 and Note 23 for further details.

[2] The country of incorporation for Equator Exploration Limited is the British Virgin Islands.

2. Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee's ("IFRS IC") Interpretations as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention, except as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The consolidated financial statements for the year ended December 31, 2014 were authorized for issuance by the Board of Directors on March 31, 2015.

3. Summary of significant account policies

(a) Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

i. Consolidation

The consolidated financial statements include the accounts of Oando Energy Resources and its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Corporation has control. The Corporation controls an entity when the Corporation is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. They are deconsolidated from the date that control ceases. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Interests in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Corporation has assessed the nature of its joint arrangements and determined them to be joint operations. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses in the consolidated financial statements. The Corporation recognizes its share of assets, liabilities, revenues and expenses of a joint operation.

ii. Business combinations

The Corporation uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Corporation. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Corporation recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Inter-company transactions, balances, income and expenses on transactions between subsidiaries are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Corporation.

Acquisition of entities under common control

There is currently no guidance in IFRS on the accounting treatment for business combinations among entities under common control. The Corporation has elected to apply predecessor accounting to the transaction under IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.* As such, all assets and liabilities of the acquiree are incorporated by the acquirer at their predecessor carrying values and no fair value adjustments are required. No goodwill arises from the transaction. Predecessor accounting may lead to differences on consolidation; these differences are typically recognized in equity in a separate reserve, contribution from parent. In the consolidated financial statements, the acquired entities' financial results and balance sheets have been incorporated as though the entities had always been combined.

iii. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars ("USD"), which is the Corporation's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

iv. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position. When cash or cash equivalents are externally restricted for use, they are separately disclosed on the statement of financial position.

v. Financial instruments

Financial assets and liabilities

Financial instruments are recognized when the Corporation becomes a party to the contractual provisions of the instrument and are measured at fair value on initial recognition. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when the obligation is discharged, cancelled or expired.

The Corporation classifies its financial instruments in the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale financial assets, or other financial liabilities. Subsequent measurement of financial instruments is based on their classification. FVTPL financial assets are subsequently carried at fair value with gains and losses arising from changes in the fair value included in the statement of comprehensive loss in the period in which they arise. Loans and receivables, held-to-maturity investments, and other financial liabilities are subsequently carried at amortized cost using the effective interest method.

The Corporation's derivatives are categorized as FVTPL unless they are designated as hedges and hedge accounting is applied; hedge accounting has not been applied for the Corporation's derivatives in the periods presented. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized or settled within 12 months of the end of the reporting period, otherwise they are classified as non-current.

Trade and other receivables, cash and cash equivalents, restricted cash, finance lease receivable and other long term receivables are categorized as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. When a loan or receivable is impaired, the Corporation reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognized using the original effective interest rate. Trade and other payables, borrowings, and other long term payables are classified as other financial liabilities. They are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period. The classification of borrowings is based on the loan schedules which set-out maturities less than and greater than 12 months. However, if debt covenants are not met and/or the Corporation is determined to be in default, the balances of the loans in default are classified as current liabilities unless satisfactory waivers are received from lenders prior to the reporting date.

Transaction costs associated with financial instruments classified as FVTPL are expensed on initial recognition. Transaction costs associated with financial instruments carried at amortized cost are netted against the fair value on initial recognition and amortized using the effective interest method. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Derivative financial instruments

A derivative is a financial instrument or contract whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'); requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and is settled at a future date. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gains or losses are recognized as financial income or expense in the statement of comprehensive loss.

Embedded derivatives

Certain contracts contain both a derivative and non-derivative host component. In such cases the derivative component is termed an embedded derivative. An embedded derivative is only separated and reported at fair value with gains and losses being recognized in the profit and loss component of the statement of comprehensive loss when the following requirements are met: (a) where the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract; (b) the terms of the embedded derivative are the same as those of a stand-alone derivative; and (c) the combined contract is not held for trading or designated at fair value through profit or loss.

vi. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the weighted average method. The cost of inventory comprises materials, direct labor, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

vii. Finance leases

As a result of the COP Acquisition (refer to Note 5), the Corporation became a party to a power purchase agreement which is accounted for as a finance lease with the Corporation as lessor. A lease is a finance lease when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. When assets are held subject to a finance lease, the related asset is derecognized and the present value of the lease payments is recognized as a finance lease receivable. Payments considered to be part of the leasing arrangement are apportioned between a reduction in the finance lease receivable and finance lease income.

Finance lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant rate of return.

Payments which are determined to be contingent rents are recognized in the consolidated statement of earnings in the period in which they are incurred. Contingent rent is that portion of lease payments that is not fixed in amount but varies based on a future factor, such as the amount of use or production.

viii. Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Other repair and maintenance costs are charged to the statement of comprehensive loss in the period in which the cost is incurred. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Oil and gas assets

When technical feasibility and commercial viability is determinable, costs attributable to those reserves are reclassified from E&E assets to a separate category within Property Plant and Equipment ("PP&E") referred to as oil and gas properties under development or oil and gas producing assets. Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statement of comprehensive loss as incurred.

Oil and gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Oil and gas assets are incorporated into Cash Generating Units "CGU's" for impairment testing.

The Corporation holds 40% working interest in the Qua Ibo field in OML 13 located as a result of a Farm-in agreement. Although the asset is in the development stage, it has been disclosed separately as the Corporation is waiting on consent from the Nigerian government on the arrangement; all other necessary approvals have been obtained.

Depletion

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Depreciation

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Furniture and fixtures 3 years
- Equipment and software 3 years
- Motor vehicle 3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

ix. Exploration and evaluation assets

Recognition and measurement:

Exploration and evaluation ("E&E") assets represent expenditures incurred on exploration properties for which technical feasibility and commercial viability have not been determined. E&E costs are initially capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired, these costs include acquisition of rights to explore, exploration drilling, carrying costs of unproved properties, and any other activities relating to evaluation of technical feasibility and commercial viability of extracting oil and gas resources. The Corporation will expense items that are not directly attributable to the exploration and evaluation asset pool. Costs that are incurred prior to obtaining the legal right to explore, develop or extract resources are expensed in the statement of income (loss) as incurred. Costs that are capitalized are recorded using the cost model with which they will be carried at cost less accumulated impairment. Costs that are capitalized are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Once technical feasibility and commercial viability of extracting the oil or gas is demonstrable, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within Property Plant and Equipment ("PP&E") referred to as oil and gas development assets and oil and gas assets. If it is determined that commercial discovery has not been achieved, these costs are charged to expense.

x. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Corporation's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or combinations of CGUs, that are expected to benefit from the synergies of the combination. Each unit or Corporation of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored for impairment; goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

xi. Impairment of non-financial assets

All non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Exploration and evaluation assets are also tested for impairment when reclassified to oil and gas development assets or oil and gas producing assets. Assets that have an indefinite useful life are not subject to amortization (e.g. goodwill) and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are considered at the lowest levels for which there are separately identifiable cash flows. Impairment of oil and gas assets and exploration and evaluation assets is reviewed for assets that are located in the same geographical region. The Corporation does not group exploration and evaluation assets with producing assets for the purpose of impairment testing. Impairment of goodwill is reviewed based on the lowest level within the entity at which the goodwill is monitored for internal management purposes. Non-financial assets other than goodwill that were impaired are reviewed for indicators of possible reversal of the impairment at each reporting date.

xii. Current and deferred income tax

Income tax expense is the aggregate of the charge to the statement of comprehensive loss in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Petroleum Profit Tax Act (PITA). Education tax is provided at 2% of assessable profits of Companies operating within Nigeria. Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities

and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Current and deferred income tax is determined using tax rates and laws enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

xiii. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost using the effective interest rate method. Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period end. However, if debt covenants are not met and/or the Corporation is determined to be in default, the balances of the loans in default are classified as current liabilities unless satisfactory waivers are received from lenders prior to the reporting date. Borrowing costs are recognized as an expense in the period in which they are incurred, except when they are directly attributable to the acquisition, construction or production of a qualifying asset. These are included as part of additions to property, plant and equipment. A qualifying asset is an asset that takes a substantial period of time, generally greater than a year, to get ready for its intended use or sale. Where borrowing costs are capitalized to a qualifying asset, the interest cash flows associated are presented within the relevant expenditures line on the statement of cash flows.

Convertible borrowings

Convertible borrowings can have a liability and equity component and can be referred to as a compound financial instrument. The liability component of borrowings that can be converted to share capital is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

xiv. Decommissioning obligations

The Corporation records a liability for the fair value of legal obligations associated with the decommissioning of oil and gas assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the decommissioning cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time using the risk free rate, with the interest charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

xv. Share-based compensation

The Corporation operates a number of equity settled share-based compensation plans, under which the Corporation receives services from employees as consideration for equity instruments (options and restricted share units) of the Corporation. The fair value of the employee services received in exchange for the grant of the option/awards is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimates of the number of options that are expected to vest are revised based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognized in the statement of comprehensive loss, with a corresponding adjustment to equity. When the options are exercised the proceeds received net of any directly attributable transaction costs are credited to share capital.

The Corporation has recognized the value of the share options plan in the statement of comprehensive loss with a corresponding adjustment to equity.

xvi. Share capital and equity

Ordinary shares are classified as equity. Share issue costs net of tax are charged to share capital account. Share issues costs relating to ongoing fund raising is included in a reserve account until the equity is received at which point it is charged net of taxes to the equity proceeds.

Warrants that will be settled only by the Corporation exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments (the “fixed for fixed criteria”) are classified as equity. Warrants that don’t meet the fixed for fixed criteria are classified and accounted for as derivative financial liabilities; these are initially recognized at fair value on the date of issue and subsequently measured at fair value at each reporting date with gains and losses from re-measurement recorded in the statement of comprehensive loss.

xvii. Production underlift and overlift

The Corporation receives lifting schedules for oil production generated by the Corporation’s working interest in certain oil and gas properties. These lifting schedules identify the order and frequency with which each partner can lift. The amount of oil lifted by each partner at the balance sheet date may not be equal to its working interest in the field. Some partners will have taken more than their share (overlifted) and others will have taken less than their share (underlifted). The initial measurement of the overlift liability and underlift asset is at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase. Overlift balances are subsequently measured at fair value, while Underlift balances are carried at lower of carrying amount and current fair value.

xviii. Revenue recognition

Revenue represents the fair value of the consideration received or receivable for sales of goods and services, in the ordinary course of the Corporation’s activities and is stated net of value-added tax, rebates and discounts and after eliminating sales within the Corporation. The Corporation recognizes revenue when the amount of revenue can be reliably measured, it is probable that future benefits will flow to the entity and when specific criteria have been met for each of the Corporation’s activities as described below:

Revenue from sales of oil and gas is recognized at the fair value of consideration received or receivable, after deducting sales taxes, excise duties and similar levies, when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. Transportation revenues are recognized in the period the product is delivered.

This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

The Corporation experiences a significant amount of crude oil losses due to theft/sabotage of crude oil pipelines, accordingly revenue is recognized based on production net of crude oil losses..

Revenue resulting from the production of oil and natural gas properties in which the Corporation has an interest with other producers is recognized on the basis of the Corporation’s working interest. The Corporation receives lifting schedules that identify the order and frequency with which each partner can lift. The amount of oil lifted by each partner at the balance sheet date may not be equal to its working interest in the field. Some partners will have taken more than their share (overlifted) and others will have taken less than their share (underlifted). In the normal course of operations, production overlift and underlift are accounted for as a sale of oil at the point of lifting by the underlifter to the overlifter and the criteria for revenue recognition is considered to have been met. In situations where a partner has overlifted and receipt of the proceeds is not certain, revenue is not recognized.

Revenue for which receipt of proceeds is not certain is not recognized in the income statement until the amounts are deemed to be collectible i.e. on a change in the circumstances of the counter party or on the receipt of cash.

xix. Finance expenses

Finance expenses include interest expenses and other costs in association to borrowing funds as well as an expense relating to accretion incurred in relation to the Corporation's decommissioning liabilities.

(b) Changes in accounting policies and disclosures

The Corporation adopted IFRIC 21, *Accounting for levies imposed by governments*, which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The Corporation's adoption of IFRIC 21 on January 1, 2014 did not result in changes in the accounting for government levies.

There are no other IFRSs or IFRIC interpretations that were effective January 1, 2014 that had a material impact on the Corporation.

(c) New accounting standards and amendments issued but not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these consolidated financial statements. Those with the potential to effect the consolidated financial statements of the Corporation are:

(a) IFRS 9 (2014) Financial Instruments ("IFRS 9") is a new standard that replaces IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. The revised standard incorporates the changes in IFRS 9 (2013), which provides revised guidance on the classification and measurement of financial assets and liabilities and adds guidance on general hedge accounting. In addition, IFRS 9 provides for a further classification category for financial assets, and includes a new impairment model for financial instruments. The standard is effective for annual periods on or after January 1, 2018. The Corporation has not yet determined the impact of the final standard.

(b) IFRS 15, Revenue from Contracts with Customers ("IFRS 15") is a new standard on revenue recognition effective for first interim periods within years beginning on or after January 1, 2017, superseding IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. It contains principles to determine the measurement of revenue and timing of when it is recognized. . The Corporation has not yet determined the impact of the final standard.

(c) Amendment to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations clarifies the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

4. Critical accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Corporation makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i. COP acquisition fair values

On July 30, 2014, the Corporation completed the COP Acquisition and determined that the acquisition method of accounting should be applied. Accordingly, a purchase price allocation was performed whereby on the acquisition date (i) identifiable assets and liabilities were recognized and measured and (ii) goodwill was recognized and measured. The process of measuring identifiable assets and liabilities required estimation. Refer to Note 5 for the fair values of assets acquired and liabilities assumed with the COP acquisition.

ii. Impairment of non-financial assets

Oil and gas assets, exploration and evaluation assets, and goodwill in accordance with the accounting policies defined above. The recoverable amounts of these assets have been determined based financial models and calculations which require the use of estimates and assumptions. Refer to Note 10, 11 and 12 respectively, for the details of impairments of oil and gas assets, exploration and evaluation assets and the Corporation's interest in Qua Ibo. Recoverable amounts have been determined based on an estimate of the fair value less costs of disposal. For oil and gas assets and the Corporation's interest in Qua Ibo fair value has been estimated using a discounted cash flow technique. For exploration and evaluation assets fair value has been estimated using per barrel of oil equivalent ("boe") values implied from recent acquisitions of similar assets. For goodwill, fair value has been estimated using a combination of the techniques applied for oil and gas assets and exploration and evaluation assets.

Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, loss factors, and the discount rate. Reserves as at December 31, 2014 have been evaluated by independent qualified reserves evaluators. The table below summarizes the forecasted Dated Brent crude oil price used to determine cash flows from crude oil reserves and resources which is based on a consensus of views on future pricing.

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Beyond
Dated Brent (US$/barrel)	69	75	82	89	96	98	100	102	104	106	108	110	2%

For material natural gas reserves, a weighted average price of $2.50/mcf was used to determine cash flows. Crude oil loss factors applied ranged from 10% to 15% depending on the field. The discount rate applied was 12%. For exploration and evaluation assets, the Corporation used $0.82/boe as the implied value/boe.

iii. Oil and gas reserves and resources

Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as the determination of recoverable amount for impairment testing purposes, depreciation, depletion and amortization charges, and decommissioning obligations) that are based on estimates of proved and probable reserves are also subject to measurement uncertainty.

iv. Income taxes

The Corporation is subject to income taxes in numerous jurisdictions. Determining the worldwide provision for income taxes requires estimation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. As of December 31, 2014, the Corporation has recorded a liability in respect of pending tax issues of $21.5 million (2013 – Nil) which was recognized on the COP acquisition (Refer to Note 5). The Corporation has included income tax disclosures in Note 16 of the financial statements.

v. Provision for decommissioning obligations

The provision for decommissioning obligations is calculated based on the best estimate of the expenditure required to settle the present obligations at the end of the reporting period, discounted using a rate that reflects the current market assessment of the time value of money. The calculations can be complex, involve subject judgments and significant measurement uncertainties as the calculations are

based on estimates of oil and gas reserves, future cost estimates and timing estimates. These estimates are reviewed at each reporting date and revised, if necessary. Refer to Note 18 for the details of the provision for decommissioning obligations.

(b) Critical accounting judgments in applying accounting policies

Critical judgments are those judgments made by Management in the process of applying accounting policies that have the most significant effect on the amounts recorded in the consolidated financial statements of the Corporation.

i. The Corporation's ability to continue as a going concern

Due to the financial condition of the Corporation at December 31, 2014 and the significant level of contractual commitments that are outstanding, judgment has been exercised in applying the assumption that the Corporation will continue as a going concern for the foreseeable future. Refer to Note 1 of the financial statements. The Corporation determined that it was in breach on the $450 million loan as a result of not meeting a current ratio covenant test (refer to Note 17 for further details). As a result, the Corporation has classified the borrowings associated with this loan as current. Refer to Note 1 and Note 17 for further details.

ii. Consolidation of operating associates

The Corporation's structure includes a number of operating associates in which the Corporation owns less than half of the outstanding shares which represent less than half of the voting rights; for these entities, Oando PLC owns greater than half of the outstanding shares which represent greater than half of the voting rights (refer to Note 1(d) above). However, the Corporation has entered into shareholder agreements with Oando PLC, most recent of which are dated July 31, 2014. The shareholder agreements require that the Board of Directors of each operating associate to be composed of four directors. Two directors are required to be appointed by the Corporation and two directors are appointed by Oando PLC. The Corporation is entitled to appoint the Chairman of the Board and the Chairman has a casting vote. The shareholder agreement cannot be terminated at the direction of Oando PLC. The Corporation has the right to elect the purchase of the Class B shares from Oando PLC for a nominal amount.

The Corporation has assessed the accounting for the operating associates under IFRS 10. The Corporation is considered to control such entities because it has the power to direct the relevant activities of such entities through its casting vote on the board of directors, pursuant to the aforementioned shareholder agreements, and because it has rights to variable returns through distributions and can affect those distributions through the exercise of its power over relevant activities.

The Corporation's control over the operating associates arises from the ability to direct the affairs of the operating associate using the power it has to obtain variable returns. Due to the shareholder's agreements Oando PLC exercises power over the operating associates indirectly through its controlling interest in the Corporation and therefore the Corporation is the entity considered to have control over such operating associates. As such, the Corporation has the responsibility for consolidating the financial information of its operating subsidiaries into the consolidated financial statements of the Corporation.

Although, Oando PLC nominally has a 60% interest in the operating associates (57% for Oando Production and Development Company Limited), its direct economic interest in the operating associates is nominal. The class A shares that Oando holds do not participate in distributions and participate in liquidation of the entity at a nominal amount. Accordingly, there is no non-controlling interest recorded for the shares in excess of the nominal amount they would be entitled to on liquidation, as such shares do not participate in the earnings of the operating associates.

iii. Combinations with entities under common control

There is currently no guidance in IFRS on the accounting treatment for business combinations among entities under common control. The Corporation has elected to apply predecessor accounting to the transaction under IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. As such, all assets and liabilities of the acquiree are incorporated by the acquirer at their predecessor carrying values and no fair value adjustments are required. No goodwill arises from the transaction. Predecessor accounting may lead to differences on consolidation; these differences are typically recognized in equity in a separate reserve, contribution from parent.

iv. Finance lease

As a result of the COP Acquisition, the Corporation became a party to a power purchase agreement whereby, through a joint operation, the Corporation delivers power from the Kwale plant and also has the right to use the plant for nine and a half years in return for an agreed series of payments from National Electric Power Authority (now Power Holding Company of Nigeria) (refer to Note 9). This arrangement is treated as a finance lease and a financial receivable asset was recognized. The financial receivable is the present value of minimum lease payments (MLP) receivable by the Corporation. In arriving at MLP, a discount rate implicit in the lease was derived.

v. Impairment of non-financial assets

The Corporation tests oil and gas assets, exploration and evaluation assets, and goodwill for impairment in accordance with the accounting policies above. Impairment assessments involve judgment.

Impairment indicators

Determining whether non-financial assets are impairment requires judgment. Impairment indicators relevant for the petroleum sector include declining market prices for oil and gas, significant downward reserve revisions, increased regulation or tax changes, or deteriorating local conditions such that it may become unsafe to continue operations. Furthermore, additional impairment indicators relevant for exploration and evaluation properties include the rights to explore the area of interest have expired during the period or will expire in the near future, and the rights are not expected to be renewed, substantive expenditure of further exploration and evaluation is not planned or budgeted, the activities have not lead to a discovery of commercial. If an impairment indicator is identified, management will perform an impairment test. If the recoverable amount is less than the carrying amount, an impairment loss would be recorded in the financial statements. Refer to Note 10, 11, 12 and 14 respectively, for the details of Management's review of impairment indicators for oil and gas assets and exploration assets and goodwill.

Allocation of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or combinations of CGUs, that are expected to benefit from the synergies of the combination. Each unit or Corporation of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Management reviews the business performance based on geography and type of business. It has identified Nigeria as the main geography of operations. The only business is oil and gas exploration, development and production. Goodwill is monitored at the operating segment level. The entire balance of goodwill has been allocated to the Nigerian oil and gas operations.

vi. Accounting for crude oil over lift by Nigerian National Petroleum Corporation ("NNPC")

The Corporation is currently in a dispute with the Nigerian National Petroleum Company ("NNPC") in relation to overlifting by the NNPC between 2008 and 2014 and which, in the view of the partners, exceeded the NNPC's entitlements. Further information relating to this dispute is included in Note 24. For the year ended December 31, 2014, the NNPC has continued to lift production volumes that exceed their entitlement, despite arbitration rulings that have found in favor of the Corporation.

In preparation of the financial statements, it was determined that the revenue recognition should be deferred for oil production subject to overlifting by the NNPC. From October 1, 2013, the Corporation has deferred the recognition of revenue for oil production that is subject to overlift by the NNPC. In addition to the $14.5 million of oil production not recognized as a result of this policy in 2013, $21 million has not been recognized in revenue in the year ended December 31, 2014. The Corporation continues to defer the recognition of revenue for oil production that is subject to overlift by the NNPC and will do so until it is determined that the economic benefits of the overlifted amounts will accrue to the Corporation.

5. Business combinations

(a) COP acquisition

On July 30, 2014, the Corporation acquired all of the issued and outstanding shares of Phillips Oil Company Nigeria Limited ("POCNL"), Phillips Deepwater Exploration Nigeria Limited ("PDENL"), and Conoco Exploration and Production Nigeria Limited ("CEPNL") to expand its oil and gas asset base. The total consideration for the acquisition was $1.5 billion. The acquisition has been accounted for as a business combination with the fair value of assets acquired and liabilities assumed at the date of acquisition summarized below:

Net purchase price:	
Purchase price	1,650,000
Working capital adjustments	189,749
Net purchase price adjustments[1]	72,750
Purchase price increase[2]	30,000
Interest on unpaid purchase price[3]	112,923
Dividends paid[4]	(557,000)
	1,498,422
Allocation of purchase price:	
Cash and cash equivalents	110,279
Trade and other receivables[6]	88,327
Indemnification asset [5, 6]	62,397
Inventory	49,897
Finance lease receivable	194,759
Property, plant and equipment	710,886
Exploration and evaluation assets	389,059
Goodwill[6]	1,014,244
Trade and other payables[6]	(110,833)
Current tax payable[5, 6]	(212,191)
Decommissioning obligations	(60,289)
Deferred tax liability	(738,113)
Total net assets acquired	**1,498,422**

1 Relates to cash advances and receipts (excluding dividends) between POCNL, PDENL, CEPNL and its previous owners prior to the closing date.
2 The purchase price of Philips Oil Company Nigeria Limited, an entity acquired in the COP Acquisition, was increased by $30 million.
3 The Corporation was charged interest on the unpaid purchase price from January 1, 2012 to the closing date at LIBOR plus 2%.
4 A total of $557 million in dividends has been paid to the previous owners of COP between January 1, 2012 and closing date of the COP Acquisition. This has been used to offset the final purchase price.
5 Included in the Tax payable line are uncertain tax provisions of $62.4 million relating to tax contingencies against POCNL which might result into a settlement to the Tax Authorities in Nigeria. In line with the Sale and Purchase Agreement between the Corporation and the previous owners of POCNL, an equal amount has been recognized as an indemnification asset under the Trade and other receivables line in the statement of financial position on the date of acquisition.
6 Measurement period adjustments are included for trade and other receivables, the indemnification asset, goodwill, trade and other payables, and current tax payable as a result of additional information that the Corporation obtained about facts and circumstances that existed at the acquisition date. Trade receivables and trade payables changed due to netting and additional information about balances that existed on the acquisition date. The indemnification asset and current tax payable changed as a result of clarity of the nature of the indemnity and taxes payable due to be paid by the Corporation on the acquisition date. Goodwill changed as a result of all other changes.

The excess of the consideration transferred over the fair value of the identifiable net assets acquired was recorded as goodwill. The fair value of inventory was determined with reference to the current market price and the number of units of inventory less transportation costs. The fair values of the finance lease receivable, property, plant and equipment and exploration and evaluation assets and decommissioning obligations were calculated using the discounted cash flow method using discount rates ranging from 12% to 15.5%. Deferred taxes were calculated in accordance with IAS 12. The seller has contractually agreed to indemnify the Corporation for uncertain tax provisions of $62.4 million relating to tax contingencies against POCNL which might result into a settlement to the Tax Authorities in

Nigeria; an indemnification asset of $62.4 million, equivalent to the fair value of the indemnified liability included in tax payable, was recognised by the Corporation on the acquisition date. Refer to Note 6 for changes to the indemnification asset and related tax liabilities after the acquisition date. At December 31, 2014, the Corporation's estimate of the range of outcomes (undiscounted) for the settlement of the indemnity asset was between Nil and $21.5 million (this estimate is based on settlements subsequent to year end – refer to Note 6). The fair values of all other assets and liabilities on the acquisition date were determined with reference to their carrying values. For acquired receivables, the fair values disclosed in the table above approximate the gross contractual amounts receivable except for trade and other receivables which is stated at $2.3 million less than its total gross contractual amount due to an allowance for amounts not expected to be collected. At the acquisition date, the Corporation expected all contractual cash flows associated with acquired receivables to be collected, except the aforementioned $2.3 million trade and other receivables amount.

Acquisition-related costs totaling $84.9 million have been recognized as an expense in the year ended December 31, 2014 in the statement of comprehensive loss, while $58.0 million has been capitalized as part of borrowing obtained to close the acquisition. Goodwill arising on this acquisition relates to the potential upside related tax benefits and opportunities afforded to indigenous oil and gas companies in Nigeria. Goodwill is not deductible for tax purposes.

From the period July 30, 2014 to December 31, 2014, the acquired entities contributed revenues, net of royalties, of $299.0 million and net income before tax for the period of $38.1 million to the Corporations operations. If the acquisition had occurred on January 1, 2014, management estimates for the year ended December 31, 2014, that its pro forma revenues, net of royalties, would have been approximately $590.1 million and net income before tax for the year would have been approximately $164.4 million (proforma net income before tax is defined as profit before tax adjusted for the effect of the impairment loss of $51.3 million). Pro forma information disclosed here is not necessarily representative of future performance. The fair values of assets and liabilities recognized are estimates due to the uncertainty of provisional amounts recognized. Amendments may be made to the purchase price equation as the cost estimates and balances are finalized.

(b) Medal oil acquisition

On July 11, 2014, the Corporation completed the acquisition of Medal Oil Company Limited ("Medal Oil"). The purchase consideration for the Medal Oil acquisition was $5 million satisfied through the issuance of common shares and warrants. Medal Oil holds a 5% interest in OML 131. With the completion of the COP Acquisition, the Corporation owns a 100% interest in OML 131. The acquisition has been accounted for as an asset acquisition with the purchase consideration of $5 million allocated to $4.8 million in exploration and evaluation assets and $0.2million in other assets. OML 131 holds exploratory assets and is not currently producing.

6. Trade and other receivables

	As at December 31, 2014	As at December 31, 2013
Trade receivables (Note 21)	55,017	8,357
Related party receivables (Note 23)	94,006	18,582
Indemnification asset	21,470	-
Current portion of joint venture receivables	18,706	-
Other receivables and prepaid expenses (Note 21)	49,712	10,799
	238,911	**37,738**

An indemnification asset and offsetting tax liability of $62.4 million was recorded as a result of the COP acquisition relating to uncertain tax provisions for which the Corporation was indemnified by the seller. In February 2015, the Corporation won an appeal related to a portion of the uncertain tax provisions which resulted in a $40.9 million reduction in taxes due. The appeal related to litigation which was initiated prior to December 31, 2014 and related to tax years from 2006 to 2011. The successful appeal provided additional clarity on the indemnification asset and uncertain tax provisions recorded. Accordingly, the Corporation reduced the indemnification asset and offsetting tax liability by $40.9 million.

7. Inventory

Inventory relates to crude oil inventory held by the Corporation. Inventory held by the corporation as at December 31, 2014 was $6.3 million (2013 – $1.5 million). No inventory impairment was recognized in 2014 (2013 – Nil). For the year ended December 31, 2014, the Corporation recognized $3.4 million (2013 - $0.4 million) in production costs relating to consumables and spare parts.

8. Derivative financial instruments

	As at December 31, 2014	As at December 31, 2013
Financial commodity contracts	299,949	-
Warrants	-	(1,785)
Conversion feature on borrowings	-	(770)
Net derivative financial assets / (liabilities)	**299,949**	**(2,555)**

(a) Financial commodity contracts

In August 2014, the Corporation entered into financial commodity contracts which hedge crude oil sales associated with assets acquired in the COP Acquisition (the "Acquisition Assets") (as required by the $450 million senior secured loan facility) and Legacy Assets (as required by the $350 million corporate loan facility). The table below summarizes the nature of the hedges executed pursuant to these arrangements:

		Price/Unit[1]			Volume	Fair Value[5]
Position	Remaining Term	Fixed	Strike	Premium[2]	(bbl/d)	12/31/2014
Acquisition Assets:						
Fixed sell, purchased call	Jan. 2015 to July 2017	$97.00	$110.55	-	5,333	157,626
Purchased put	Jan. 2015 to July 2017	-	$110.55	$13.55	2,667	78,786
Total volume - $450 million loan hedges					8,000	236,412
Legacy Assets:						
Purchased put	Jan. 2015 to Jan 2019[3]	-	$95.00 - $115.00	$11.50 – $11.84	2,223[4]	63,537
Total fair value						**299,949**

[1] Based on the weighted average price/unit for the remainder of contract.
[2] Premiums are deferred and payable monthly and settled net of fixed and strike cash flows.
[3] Remaining term excludes February 2016 to January 2017.
[4] Average volume over the life of the contract.
[5] No fair values at 12/31/2013 as contracts were not in place at this time.

The effect of the Acquisition Asset hedges is to fix the price of oil that the Corporation receives, on the specific volumes at $97/bbl until the benchmark price of dated Brent crude oil reaches 110.55/bbl; when dated Brent crude oil price exceeds $110.55/bbl the Corporation will receive the incremental price above $110.55/bbl. The Acquisition Asset hedges account for 8,000 bbl/day.

The effect of the Legacy Asset hedges is to fix the price of oil that the Corporation receives, on the specific volumes at an average price of $91/bbl until the benchmark price of dated Brent crude oil reaches the cap price (which ranges from $95/bbl to $115/bbl); when dated Brent crude oil price exceeds the cap price the Corporation will receive the incremental price above cap price. The Legacy Asset hedges account for an average of 2,223 bbl/day.

The fair value of the commodity contracts as at December 31, 2014 was $299.9 million (2013 – Nil). In the year ended December 31, 2014, $324.2 million was recognized as a derivative gain in the statement of comprehensive loss for the commodity contracts of which $24.3 million was realized in the period (2013 – Nil). Subsequent to December 31, 2014, the Corporation entered into an early settlement and reset arrangements with hedging counterparties which resulted in the receipt of $234 million in cash which was used to repay existing debt obligation (refer to Note 30).

The fair value of financial commodity contracts are calculated based on observable inputs which include forward prices of crude oil. Refer to Note 21 for a summary of the impact of changes to crude oil prices on the fair value of commodity contracts.

(b) Warrants

The fair value of warrants as at December 31, 2014 was Nil (2013 – $1.8 million liability). In the year ended December 31, 2014, $14.6 million was recognized as a derivative loss in the statement of comprehensive loss for warrants (2013 - $4.1 million gain).

i. Warrants issued in 2014

In 2014, the Corporation issued 325,392,869 warrants to Oando PLC, 17,535,031 warrants to private placement investors, and 1,745,541 warrants in connection with the Acquisition of Medal Oil (Notes 5, 17 and 20). On the date of issue, each whole warrant entitled the holder thereof to acquire one common share of OER at a price of $2.00 Canadian dollars "CAD" per common share for a period of 24 months from July 30, 2014. However, if after a period of six months from July 30, 2014, the closing price of the common shares on the TSX is greater than $3.50 CAD for a period of at least 10 consecutive trading days, the warrants will expire within 30 days. The warrants were initially classified as financial liabilities because the exercise price was not fixed in the functional currency of the Corporation; accordingly the warrants were initially recognized at fair value and subsequently measured at fair value through profit or loss.

On September 29, 2014, the exercise price on the warrants issued to Oando PLC was changed from $2.00 CAD to $1.80 USD. Also, in the fourth quarter of 2014, the exercise prices on the warrants issued to private placement investors and on the acquisition of Medal Oil were changed from $2.00 CAD to $1.80 USD. The changes set the strike price to a currency that matches the functional currency of the Corporation. As a result, the warrants now meet the definition of equity and were reclassified to equity at their fair value on the effective date of the change. The total amount transferred to equity in 2014 was $120 million (2013 – Nil).

For the reclassification of warrants issued to Oando PLC and those that occurred in the fourth quarter, the fair value has been estimated using a variant of the Black Scholes option pricing model. For the Oando PLC warrants, the significant inputs to the model were a share price of $1.69 CAD, an exercise price of $1.80 USD, volatility of 78.4%, a dividend yield of 0%, an expected warrant life of 22 months, and a risk free rate of 3.5%. For the reclassification of warrants in the fourth quarter of 2014, the significant inputs to the model were a share price of $1.25 CAD, an exercise price of $1.80 USD, volatility of 82.7%, a dividend yield of 0%, an expected warrant life of 19 months, and a risk free rate of 3.5%.

On December 31, 2014, the Corporation received the approval of the TSX for the listing of the warrants so they can commence trading on the TSX.

ii. Warrants issued on closing the RTO

Upon closing of the Reverse Take Over "RTO", on July 24, 2012, 11,428,552 warrants were issued as purchase consideration. The warrants were classified as financial liabilities because the exercise price was not fixed in the functional currency of the Corporation; accordingly the warrants were recognized at fair value and subsequently measured at fair value through profit or loss. On 24 July 2013, 5,713,984 of the 11,428,260 warrants expired. On July 24, 2014, all of the unexercised warrants issued upon closing the RTO expired without being exercised.

(c) Conversion feature on borrowings

As a part of the $1.2 billion Oando PLC loan facility, the Corporation also entered into the Repayment Deed. Pursuant to the Repayment Deed, either Oando PLC or the Corporation is permitted to elect for the Corporation to repay the Oando PLC Facility by the issuance of common shares, provided that all regulatory approvals have been obtained. In 2014, $867 million of principal, $14.9 million of accrued interest, and the $48 million financing fee was exchanged for 650,785,739 common shares of OER and 325,392,870 warrants (Refer to Note 17). As at December 31, 2014, the fair value of the conversion feature was Nil (2013 – $0.7 million) as the Corporation had no borrowings outstanding with Oando PLC. For the year ended December 31, 2014, $50.6 million (2013 - $0.5 million) was recognized as a derivative loss in the statement of comprehensive loss for the conversion feature on borrowings. The conversion feature was settled as a result of the Oando PLC loan conversions (an issuance of shares and warrants to settle the outstanding loan and conversion feature liability balances) and through a single loan repayment.

During 2014, the fair value of the conversion feature was determined each time the Oando PLC loan was drawn, at the end of each reporting period, and with each settlement of the conversion feature. The fair value of the conversion feature was established with reference to a variant of the Black Scholes option pricing model. The assumptions used to value the convertible loan and embedded derivatives with each settlement in the period included the share prices ranging from $1.75 CAD to $1.82 CAD (December 31, 2013 – $1.70 CAD), the underlying stock volatility ranging from 67% to 85% (December 31, 2013 – 93%), and a US dollar risk free rate of 3.5% (December 31, 2013 – 2.8%).

(d) Fair value estimation

IFRS requires that the Corporation disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying value of cash, trade and other receivables, and trade and other payable and accrued liabilities reflected in the consolidated balance sheets approximate fair value due to the short term to maturity of these instruments. Refer to 17 for details about the fair value of borrowings.

The Corporation analyzes financial instruments carried at fair value and categorizes them based on their valuation method as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Financial commodity contracts have been categorized as Level 2 and have a fair value of $299.9 million as at December 31, 2014 (2013 – Nil). Warrants and the conversion feature on borrowings have been historically categorized as Level 3 and have fair values of Nil as at December 31, 2014 (2013 fair values of warrants and the conversion feature were $1.8 million and $0.8 million respectively).

The following table presents the change in Level 3 instruments for the year ended December 31, 2014.

	Warrants	Conversion Feature on Borrowings	Total
Balance, beginning of year	(1,785)	(770)	(2,555)
New warrants / conversion features	(132,824)	(40,264)	(173,088)
Net gains / (losses) recognized	14,639	(50,632)	(35,993)
Extinguishment of warrants / settlement of conversion feature	119,970	91,666	211,636
Balance, end of year	-	-	-

The following table presents the change in Level 3 instruments for the year ended December 31, 2013.

	Warrants	Conversion Feature on Borrowings	Total
Balance, beginning of year	(5,906)	(449)	(6,355)
New warrants / conversion features	-	-	-
Net gains / (losses) recognized	4,121	(321)	3,800
Extinguishment of warrants / settlement of conversion feature	-	-	-
Balance, end of year	(1,785)	(770)	(2,555)

(e) Net gains on financial instruments

	2014	2013
Realized gains / (losses) on financial commodity contracts	24,298	(150)
Unrealized gains on financial commodity contracts	299,949	-
Gains on warrants	14,639	4,121
Losses on conversion feature on borrowings	(50,632)	(321)
Net gains on financial instruments	288,254	3,650

9. Finance lease receivable

	As at December 31, 2014
Current	-
Non-current	195,727
Finance lease receivable	**195,727**

As a result of the COP Acquisition, the Corporation became a party to a power purchase agreement which is accounted for as a finance lease. The Corporation, as a party to the NAOC/POCNL/NNPC JV entered into a power purchase agreement with Power Holding Company of Nigeria (PHCN) in 2001. The agreement is to develop, finance, construct, own maintain and operate as a joint venture an upstream gas project. The agreement is classified as a joint operation for accounting purposes. The gas project is located at Kwale for the production of electric power ("the Kwale-Okpai Independent Power Plant" or "Kwale IPP"). The gas plant utilizes fuel source from the natural gas reserves in joint venture oil fields operated by Nigeria Agip Oil Company Limited (NAOC). The agreement will continue in full force and effect for 20 years from the Commercial operations date with the option of renewal of 5 years. At the end of the 25th year, PHCN shall have the option to purchase the Kwale IPP at a fair price determined by an expert. PHCN will pay a contracted sum to the Joint Venture partners throughout the tenure for capacity and for the purchase of electricity from the plant. The residual value has been estimated to be $164.7million. The lease payments grow over time but are lower than the interest income for the first five years and as such all the finance lease receivable has been considered as non-current.

The following table summarizes the present value of minimum lease payment as at December 31, 2014:

	As at December 31, 2014
No later than one year:	
Total future value	20,272
Unearned interest income	(22,426)
Present value	(2,154)
Between one and five years:	
Total future value	86,292
Unearned interest income	(91,654)
Present value	(5,362)
Later than five years:	
Total future value	264,287
Unguaranteed residual value	164,650
Unearned interest income	(225,694)
Present value	203,243
Finance lease receivable	**195,727**

The Corporation recorded $4.9 million in contingent rents in the year ended December 31, 2014 (2013 – Nil).

10. Property, plant and equipment

	Oil and gas properties	Oil and gas properties under development	Other fixed assets	Total
At January 1, 2013				
Cost	253,856	64,503	3,879	322,238
Accumulated depletion, depreciation and impairment	(130,939)	-	(1,669)	(132,608)
Net book amount	**122,917**	**64,503**	**2,210**	**189,630**
Year ended December 31, 2013				
Opening net book amount	122,917	64,503	2,210	189,630
Additions	69,005	17,272	1,334	87,611
Disposals	-	-	(213)	(213)
Depletion and depreciation	(30,821)	-	(692)	(31,513)
Change in decommissioning liability	3,873	-	-	3,873
Closing net book amount	**164,974**	**81,775**	**2,639**	**249,388**
At December 31, 2013				
Cost	326,734	81,775	4,983	413,492
Accumulated depreciation, depletion and impairment	(161,760)	-	(2,344)	(164,104)
Year ended December 31, 2013	**164,974**	**81,775**	**2,639**	**249,388**
At January 1, 2014				
Opening net book amount	164,974	81,775	2,639	249,388
Additions	131,897	-	1,752	133,649
Acquisitions	709,217	-	1,669	710,886
Transfers from exploration and evaluation	195,383	-	-	195,383
Disposals	-	-	(51)	(51)
Change in decommissioning liability	(30,595)	-	-	(30,595)
Impairment loss	-	(61,397)	-	(61,397)
Depletion and depreciation	(87,681)	-	(991)	(88,672)
Transfers to oil and gas properties from properties under development	20,378	(20,378)		
Closing net book amount	**1,103,573**	**-**	**5,018**	**1,108,591**
At December 31, 2014				
Cost	1,414,411	-	8,353	1,422,764
Accumulated depreciation, depletion and impairment	(310,838)	-	(3,335)	(314,173)
Year ended December 31, 2014	**1,103,573**	**-**	**5,018**	**1,108,591**

In calculating depletion expense for the year ended December 31, 2014, $948.9 million of future development costs were included in the cost base subject to depletion (2013 - $91.3 million).

In 2014, the carrying amount of the OML 90 CGU in property, plant and equipment has been reduced to their recoverable amount through recognition of an impairment loss of $61.4 million (2013 - Nil). The impairment was triggered by declining oil prices and significant downward reserve revisions. The recoverable amounts have been determined based on the asset's fair value less costs of disposal using a discounted cash flow technique and categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, loss factors, and the discount rate. Reserves as at December 31, 2014 have been evaluated by independent qualified reserves evaluators. Refer to Note 4(a) ii above for the prices and loss factors used to determine the future cash flows from reserves and for the discount rates applied. The carrying amount of the CGU has been fully impaired.

11. Exploration and evaluation assets

At January 1, 2013	
Cost	357,672
Accumulated impairment	(18,835)
Net book amount	**338,837**
Year ended December 31, 2013	
Opening net book amount	338,837
Additions	6,620
Closing net book amount	**345,457**
At January 1, 2014	
Cost	364,292
Accumulated impairment	(18,835)
Net book amount	**345,457**
Year ended December 31, 2014	
Opening net book amount	345,457
Additions	12,628
Acquisitions[1]	393,894
Transfers to property, plant and equipment	(195,383)
Impairment	(401,386)
Closing net book amount	**155,210**
At December 31, 2014	
Cost	575,431
Accumulated impairment	(420,221)
Net book amount	**155,210**

[1] *The acquisitions include the fair value of exploration and evaluation assets acquired for COP and Medal Oil Company Limited of $389.1million and $4.9 million respectively as shown in Notes 5.*

The above exploration and evaluation assets represent expenditures arising from the exploration and evaluation of oil and gas interests. The costs relate to oil and gas properties primarily located in Nigeria. The technical feasibility and commercial viability of extracting oil and gas has not yet been determined in relation to the above properties, and therefore, they remain classified as exploration and evaluation assets at December 31, 2014.

In 2014, the carrying amount of certain exploration and evaluation assets have been reduced to their recoverable amount through recognition of an impairment loss of $401.4 million (2013 - Nil). The impairment was triggered by declining oil prices and significant downward reserve revisions.The recoverable amounts have been determined based on the asset's fair value less costs of disposal using per boe values implied from recent acquisitions; the estimate has been categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of fair value are the $/boe and reserve estimates. Reserves as at December 31, 2014 have been evaluated by independent qualified reserves evaluators. Refer to Note 4(a) ii above for the $/boe rates applied.

The table below shows the carrying and recoverable amounts of the impaired CGUs as at December 31, 2014.

Cash Generating Unit	Carrying Amount	Recoverable Amount	(Impairment loss)
OML 134	253,461	1,230	(252,232)
OML 125	77,634	492	(77,142)
OML 131	42,446	33,784	(8,662)
OML 145	75,617	27,962	(47,655)
OML 122	13,748	-	(13,748)
OPL 321	935	-	(935)
OPL 323	1,012	-	(1,012)
Total impairment loss			**(401,386)**

If the $/boe was reduced by $0.1, this would result in an increase in the total impairment loss by $11.9 million (2013 - Nil).

12. Interest in Qua Ibo

	Interest in Qua Ibo
Cost	
Balance, January 1, 2013	18,634
Additions	21,851
At December 31, 2013	**40,485**
Net book amount	
Cost	40,485
Accumulated depreciation	-
Closing balance	**40,485**
Balance, January 1, 2014	40,485
Additions	14,744
Change in decommissioning liability	(1,787)
Balance, December 31, 2014	**53,442**

In connection with the common control transaction, the Corporation acquired a 40% participating interest in the Qua Ibo Marginal Field within Oil Mining Lease 13 located onshore Nigeria. The oil and gas property is in the development phase. The acquisition is subject to the consent of the Nigerian Minister of Petroleum Resources, which the Corporation has not yet obtained. In the event that the consent of the Nigerian Minister of Petroleum Resources is not obtained, the Corporation shall be entitled to certain economic interests in the Qua Ibo Marginal Field. These are as follows:

- Farmee's "Economic Rights". In the event that the Minister's consent to the assignment of the Participating Interest of 40% is not given or is delayed unreasonably, the Farm In Agreement shall remain in full force and effect, and all references to "Participating Interests" shall be read to mean "Economic Interests", and the Farm-In Agreement shall continue to guide and govern the relationship of the Parties.

- Re-imbursement Rights. If the Economic Interests referred are unenforceable for any reason whatsoever, NEPN (a Qua Ibo joint venture partner) shall have an obligation to reimburse the Corporation of all the disbursements, costs and contributions made by the Corporation in respect of the development and operation of the Field.

- Farmee's Call Option. If the Economic Interests referred are unenforceable for any reason whatsoever, the Corporation shall have the option and right to acquire up to 40% of the entire issued capital of NEPN by subscribing for such number of shares of

NEPN which when aggregated with all outstanding issued shares of NEPN will amount to 40% of the aggregate issued shares of NEPN at a subscription price of US$1.00.

As at December 31, 2014, the consent of the Nigerian Minister of Petroleum Resources has not yet been obtained. Therefore, the Corporation has presented the interest as a separate item on the statement of financial position as an "Interest in Qua Ibo". The Corporation also carries a receivable balance relating to NEPN's share of costs associated with the development of the Qua Ibo Marginal Field. For the year ended December 31, 2014, the Corporation capitalized $3 million in borrowing costs associated with the interest (2013 - $2.3 million).

For the year ended December 31, 2014, the Corporation prepared an impairment test for its interest in Qua Ibo in which the recoverable amount was compared to the carrying value and determined that the carrying value was not impaired (also not impaired in 2013). The recoverable amount has been determined based on the asset's fair value less costs of disposal using a discounted cash flow technique and categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, loss factors, and the discount rate. Reserves as at December 31, 2014 have been evaluated by independent qualified reserves evaluators. Refer to Note 4(a) ii above for the prices and loss factors used to determine the future cash flows from reserves and for the discount rates applied.

13. Other long term receivables

	As at December 31, 2014	As at December 31, 2013
Under lift receivable	47,272	72,720
Long term portion of Joint venture receivables	27,868	58,456
Other long term assets	1,519	-
Financing costs associated with debt yet to be issued	-	4,793
(Also see Note 21)	**76,659**	**135,969**

14. Goodwill

At January 1, 2013	
Cost	6,794
Accumulated impairment	-
Net book amount	**6,794**
Year ended December 31, 2014	
Opening net book amount	6,794
Acquisitions	1,014,244
Impairment	-
Closing net book amount	**1,021,038**
At December 31, 2014	
Cost	1,021,038
Accumulated impairment	-
Net book amount	**1,021,038**

Management reviews the business performance based on geography and type of business. It has identified Nigeria as the main geography of operations. The only business is oil and gas exploration, development and production. Goodwill is monitored at the operating segment level. The entire balance of goodwill has been allocated to the Nigerian oil and gas operations.

For the year ended December 31, 2014, the Corporation prepared an impairment test for goodwill in which the recoverable amount was compared to the carrying value and determined that the carrying value of goodwill was not impaired (goodwill was also not impaired in 2013). The recoverable amounts have been determined based on the asset's fair value less costs of disposal using a discounted cash flow technique and comparative market transaction data. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, loss factors, and the discount rate and per boe values. Reserves as at December 31, 2014 have been evaluated by independent qualified reserves evaluators. Refer to Note 4(a) ii above for the prices and loss factors used to determine the future cash flows from reserves and for the discount rates and per boe values applied. The recoverable amount of the CGU was estimated to be $2.3 billion.

15. Trade and other payables

	As at December 31, 2014	As at December 31, 2013
Trade payables	8,735	3,453
Related party payables (Note 23)	109,049	67,418
Other payables and accrued expenses	269,749	142,298
	387,533	213,169

16. Income taxes

(a) Income tax / (recovery) expense

	For the year ended December 31, 2014	For the year ended December 31, 2013
Current tax expense	71,285	(638)
Deferred tax expense	(74,893)	11,656
	(3,608)	11,018

The movement in the current tax payable balance is as follows:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Balance, beginning of year	1,074	6,856
Provisions made during the year	71,285	5,854
Adjustments in respect of prior years	(40,928)	(6,492)
Acquisition of COP entities	212,191	-
Payments made during the year	(38,857)	(5,144)
	204,765	1,074

Included in the Tax payable line are uncertain tax liabilities of $21.5 million relating to tax contingencies against POCNL which might result into a settlement to the Tax Authorities in Nigeria. These uncertain tax liabilities relates to tax assessments provided to POCNL by the Federal Inland Revenue Service (FIRS) and Nigeria Extractive Industries Transparency Initiative (NEITI) relating to tax years before the effective acquisition date of January 1, 2012. In line with the Sale and Purchase Agreement between the Corporation and COP, the Corporation will be indemnified and COP will be responsible for the tax liabilities should POCNL fail to resolve the dispute successfully. An equal amount has been recognized as an indemnification asset under the Trade and other receivables line in the statement of financial position on the date of acquisition.

Originally, an indemnification asset and offsetting tax liability of $62.4 million was recorded as a result of the COP acquisition relating to uncertain tax provisions for which the Corporation was indemnified by the seller. In February 2015, the Corporation won an appeal related to a portion of the uncertain tax provisions which resulted in a $40.9 million reduction in taxes due. The appeal related to litigation which was initiated prior to December 31, 2014 and related to tax years from 2006 to 2011. The successful appeal provided additional clarity on

the indemnification asset and uncertain tax provisions recorded. Accordingly, the Corporation reduced the indemnification asset and offsetting tax liability by $40.9 million.

The tax on the Corporation's income (loss) before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated entity as follows:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Income / (loss) before income tax	(323,649)	(27,212)
Domestic tax rate	56.25%	56.25%
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(182,053)**	**(15,307)**
Tax effects of:		
Non-deductible expenses	131,954	-
Change in unrecognized deferred tax assets	145,548	-
Education tax	-	31
Losses not subject to income tax	-	26,294
Foreign rate differential	(98,041)	-
Other reconciling items	(1,016)	-
	(3,608)	**11,018**

The weighted average tax rate for the year ended December 31, 2014 was 36.2% (2013 – 25%). The Corporation has not recognized deferred tax assets of approximately $236.0 million (2013 - $35.3 million) relating to deductible temporary differences and unused tax losses as it is uncertain that the deferred tax assets will be realized.

(b) Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	As at December 31, 2014	As at December 31, 2013
Deferred tax assets to be recovered after more than 12 months	7,091	14,590
Deferred tax assets to be recovered within 12 months	-	-
Deferred tax assets	**7,091**	**14,590**
Deferred tax liabilities to be recovered after more than 12 months	729,723	74,003
Deferred tax liabilities to be recovered within 12 months	-	-
Deferred tax liabilities	**729,723**	**74,003**

Consolidated deferred income tax assets and liabilities, deferred income tax charge/(credit) in the statement of comprehensive loss and deferred income tax charge/(credit) in equity are attributable to the following items:

	As at January 1, 2014	Charged (Credited) through income	Acquisition	As at December 31, 2014
Property, plant and equipment and Exploration and evaluation assets	74,003	(71,692)	698,784	701,095
Provisions	-	(29,793)	-	(29,793)
Inventory	-	(32,443)	32,443	-
Finance lease receivable	-	291	58,130	58,421
Deferred tax liability	**74,003**	**(133,637)**	**789,357**	**729,723**

	As at January 1, 2014	Charged (Credited) through income	Acquisition	As at December 31, 2014
Losses carry forward	14,386	(12,526)	-	1,860
Property, plant and equipment and Exploration and evaluation assets	-	885	-	885
Provisions	204	(47,104)	51,246	4,346
Deferred tax asset	**14,590**	**(58,745)**	**51,246**	**7,091**

	As at January 1, 2013	Charged through income	Acquisition	As at December 31, 2013
Property, plant and equipment	54,210	19,793	-	74,003
Deferred tax liability	**54,210**	**19,793**	**-**	**74,003**
Exchange losses	164	-	-	164
Share based payments	40	-	-	40
Tax losses	6,479	7,907	-	14,386
Deferred tax asset	**6,683**	**7,907**	**-**	**14,590**

17. Borrowings

	As at December 31, 2014	As at December 31, 2013
$450 Million Senior Secured Facility	389,848	-
$350 Million Corporate Finance Loan Facility	319,045	-
$100 Million Subordinated Debt Facility	92,713	-
$1.2 Billion Oando PLC Loan Facility	-	401,000
First Bank of Nigeria (Loan #1)	-	32,944
First Bank of Nigeria (Loan #2)	-	70,000
First Bank of Nigeria (Short term loan)	-	7,779
Ecobank Nigeria Loan	-	20,000
Diamond Bank Loan	-	59,152
Enterprise Bank	-	30,000
	801,606	620,875
Less: Borrowings, current	551,480	(496,099)
Borrowings, non-current	**250,126**	**124,776**

The carrying amounts of all Corporation borrowings are denominated in USD.

(a) $450 Million Senior Secured Facility

The Corporation entered into agreements dated January 31, 2014 and July 31, 2014 with major international banks providing for a net aggregate loan of $450 million (the "$450 Million Senior Secured Facility" or "$450 Million Loan"). As of the close of business on the day after closing of the COP Acquisition, an aggregate amount of $450 million was outstanding under the $450 Million Loan. Interest is charged on the loan at 3 month LIBOR plus 8.5% per annum and interest payments are due at the end of each quarterly period. The loan is repayable in quarterly installments in accordance with a repayment schedule. In addition to regular repayments, 25% of any excess cash from the proceeds of sales of crude oil, natural gas liquids and electric power from POCNL's various operations are also to be applied against outstanding principal. The loan has a final maturity date of June 30, 2019 and is secured by the Corporation's 20% interest in the NAOC/POCNL/NNPC JV including all fields and facilities and the Kwale-Okpai IPP. The carrying value of the assets pledged as at December 31, 2014 was $923.7 million. The Corporation is required to hedge a certain portion of crude oil production. Refer to Notes 8 on commodity contracts for the details of the hedges executed by management to satisfy this requirement; the financial commodity contracts were executed with the same banks that provided the loan. The loan also requires the Corporation to maintain cash balances with the lenders of $30 million on the date the facility is drawn increasing to $40 million within one year from this date. As at December 31, 2014, the Corporation had cash deposits of $30 million with the lenders.

The full $450 million was drawn on the facility in July 2014 to fund the COP Acquisition. The Corporation incurred $30.0 million of transactions costs which have been allocated to the amount drawn and used to estimate the effective interest rate on the loan. During 2014, the Corporation recorded $20.7 million in interest expense for the loan. Debt covenants are due to be calculated and submitted to the lenders twice annually. In 2015, the Corporation prepaid $188 million of outstanding principal with proceeds from early settlement and reset arrangements associated with financial commodity contracts – refer to Note 30.

At December 31, 2014 the Corporation was in breach of the current ratio covenant on the $450 million loan which is required to be not less than 1.1. The current ratio calculated by the Corporation was 0.7. As such, the facility was classified as a current liability. The breach of the loan covenant gave the lenders the ability to accelerate the maturity of the facility on demand. However, the lenders chose not to exercise the rights to exercise their acceleration rights under that facility and the Corporation received a waiver of the current ratio requirement for the December 31, 2014 calculation at March 31, 2015. If there is no further waiver of covenants, the Corporation will need to apply the normal covenant at June 30, 2015. There can be no assurances that the Corporation will not again be in breach its covenants at June 30, 2015.

In addition, the Corporation's $350 million corporate finance loan facility (the “$350 million loan”) and the $100 million subordinated debt facility (the “$100 million loan”) contain certain cross-default clauses which would be triggered upon acceleration of a debt. Hence, if the $450 million loan lenders had chosen to accelerate payment of the $450 million loan, the lenders associated with the $350 million loan and the $100 million loan would have the right to accelerate payment on these loans. Indirectly, this caused a situation where the Company did not have the unconditional right to defer repayment of the $450 million loan facility for a period of more than 12 months. However, as a result of the waiver received after year-end and the indirect nature of the potential breach of the $350 million loan and the $100 million loan, management determined that it would not classify the $350 million loan as a current liability; the $100 million loan is already classified as current as it is due in less than one year. Had the $350 million loan been classified as current, the impact would be to increase current liabilities by $250.1 million and decrease non-current liabilities by an equivalent amount. There can be no assurances that any subsequent breach of the $450 million loan covenants would not lead to an acceleration of the $350 million loan and $100 million loan facility.

(b) $350 Million Corporate Finance Loan Facility

On January 17, 2014, the Corporation signed an agreement with a consortium of lenders led by FBN Capital Limited (an affiliate of First Bank of Nigeria) and FCMB Capital Markets Limited (an affiliate of First City Monument Bank) to secure a Corporate Finance Loan Facility for $329 million. Pursuant to an amendment agreement executed on January 31, 2014 the facility amount was increased to $350 million (the “$350 Million Corporate Finance Loan Facility” or “$350 Million Loan”). The purpose of the facility was to fund the repayment of the existing loans of the Corporation and to finance the COP Acquisition. Interest is charged at LIBOR plus 9.5% per annum for the first fifty-seven months of the facility, with an increase of 1% for the remaining life of the facility. The facility will be repaid quarterly and has a final maturity date of June 30, 2020. The facility is secured by the Corporation’s interest in OML 125, OML 134, OML 56, and OML 90 including all fields and facilities. The carrying value of the assets pledged as at December 31, 2014 was $239.6 million. The Corporation is also required to hedge a certain portion of crude oil production. Refer to Note 8 for the details of hedges executed by management to satisfy this requirement. As at December 31, 2014, the Corporation had cash deposits of $18.5 million with the lenders.

The full $350 million was drawn in July 2014, the proceeds of which were used to (a) repay existing loans (the First Bank Nigeria Loans, the Ecobank Nigeria Loan, the Diamond Bank Loan, and the Enterprise Bank Loan) and (b) finance the COP Acquisition. The Corporation incurred $21.4 million of transactions costs which have been allocated to the amount drawn. The $21.4 million of transaction costs were used to calculate the interest expense on the facility. During 2014, the Corporation recorded $17.4 million in interest expense for the facility. Debt covenants are due to be calculated and submitted to the lenders quarterly. In 2015, the Corporation prepaid $51 million of outstanding principal with proceeds from early settlement and reset arrangements associated with financial commodity contracts – refer to Note 30.

(c) $100 Million African Export Import Bank Subordinated Debt Facility

On June 6, 2014, the Corporation signed an agreement with African Export-Import Bank to secure a one year subordinated structured debt facility for $100 million. The loan was designated to fund a portion of the COP Acquisition. Interest is charged at LIBOR plus 7% per annum and was prepaid. The loan is due to be repaid on July 10, 2015. The loan is secured by a letter of credit from Oando PLC.

The full $100 million less prepaid interest was drawn in July 2014 to finance the COP Acquisition. The Corporation incurred $6.5 million of transactions costs which have been allocated to the amount drawn and used to estimate the effective interest rate on the loan. During the year ended December 31, 2014, the Corporation recorded $6 million in interest expense for the loan.

(d) $1.2 billion Oando PLC loan facility

On December 20, 2012, the Corporation borrowed $345 million from Oando PLC to finance a portion of the deposit required in connection with the COP Acquisition. The 2012 Oando PLC Loan was subsequently rolled into the 2013 Oando PLC Loan pursuant to the 2013 Oando PLC Loan Documentation. The purpose of the 2013 Oando PLC Loan was to provide for an aggregate increase in the maximum amount that may be borrowed by the Corporation to $401 million.

On December 24, 2013, the Corporation entered into a loan agreement to borrow $200 million from Oando PLC in order to fund payments in relation to the COP Acquisition. Interest on the facility was charged at 5% per annum and the amount was to be available for draw down

from December 24, 2013 to February 27, 2014. The loan was drawn down on February 12, 2014 and was required to be repaid on February 28, 2014.

On February 10, 2014, the $200 million loan and the 2013 Oando PLC Loan were rolled into the 2014 Oando PLC Loan under which the Corporation had the ability borrow up to an aggregate $1.2 billion on or before December 31, 2014. The 2014 Oando PLC Loan comprised $401 million borrowed under the 2013 Oando PLC Loan and the $200 million loan which was drawn down on February 12, 2014 as well as an additional $599 million. The $292 million available capacity on the loan expired on December 31, 2014 and can no longer be utilized by the Corporation.

The annual interest rate was set at 4% calculated quarterly and the facility included a $48 million financing fee. Principal and financing fee payments were due to be repaid on December 31, 2015. The terms of the facility included a conversion feature allowing the Corporation to elect to repay interest, the financing fee, and principal by the issuance of common shares of OER, subject to certain restrictions. The table below summarizes the movement in the loan in 2014.

	2014
Balance, beginning of year	401,000
Drawings	507,000
Converted to shares and warrants	(867,000)
Cash repayment	(41,000)
Balance, end of year	-

In 2014, the facility was drawn by $507 million of which $41 million was repaid. Net drawings were used to fund the COP Acquisition and for other Corporate requirements. Also during this period, $867 million of principal, $14.9 million of accrued interest, and the $48 million financing fee was exchanged for 650,785,739 common shares of OER and 325,392,869 warrants as per the table below. Of the $929.9 million conversion amount, $126.4 million was allocated to the warrants and recorded as a derivative financial liability and the residual amount of $803.5 million was recorded as share capital. The $48 million financing fee was accounted for as a transaction cost and expensed in the period.

	Amount (Thousands of USD)				Units	
Conversion Date	Principal	Interest	Financing Fee	Total	Shares	Warrants
February 26, 2014	601,000	11,710	-	612,710	432,565,768	216,282,884
July 9, 2014	168,000	2,900	48,000	218,900	150,075,856	75,037,928
August 20, 2014	98,000	325	-	98,325	68,144,115	34,072,057
Total	**867,000**	**14,935**	**48,000**	**929,935**	**650,785,739**	**325,392,869**

(e) Fair value of borrowings

The fair value current and non-current of borrowings equals their carrying amount, as the impact of discounting is not significant (2013 – In 2013 the fair value of current borrowings equaled the carrying amount as the impact of discounting was not significant; the fair value of 2013 non-current borrowings was $104.2 million determined using a discounted cash flow technique and a discount rate of 10.5%).

18. Decommissioning obligations

	December 31, 2014
Balance, beginning of period	27,197
Liabilities incurred	3,285
Acquisitions	60,289
Change in estimate	(35,667)
Accretion expense	4,791
Balance, end of period	59,895

The total future decommissioning obligation is estimated based on the Corporation's net ownership interest in all wells and facilities relating to continuing operations, the estimated costs to abandon and reclaim these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The key assumption upon which the carrying amount of the decommissioning obligation is based is a discount rates ranging from 15.2% to 15.49% (December 31, 2013 - 13%) and an inflation rate of 8% (December 31, 2013: 8.5%) These obligations are expected to be settled over the next five to thirty-one years.

The Corporation has used inflation rates and discount rates that reflect the country risk associated with operations in Nigeria. If the discount rate was increased by 2%, this would result in a decrease in the decommissioning obligation of $18.6 million (2013 - $4.3 million).

19. Other long term payables

	As at December 31, 2014	As at December 31, 2013
Due to Oando PLC	47,272	47,272
Retirement benefit obligation	1,980	1,947
	49,252	**49,219**

The amount due to Oando PLC represents an amount payable to Oando PLC in relation to crude oil under lifts occurring prior to the Oando re-organization completed on July 24, 2012. On completion of the Oando reorganization, the Corporation retained the contractual rights to receive the cash flows associated with an under lift receivable. However, as part of the terms of the Oando reorganization, the Corporation also assumed a contractual obligation to pay a portion of those cash flows to Oando PLC. Therefore, the Corporation has recognized a long term payable for this amount on the statement of financial position. As part of the terms of the payable, the Corporation has no obligation to pay amounts to Oando PLC unless it collects the equivalent amounts from the original under lift receivable (refer to Note 21). The retirement benefit obligation relates to (a) a defined contribution retirement benefit plan for its employees in Nigeria in line with the Pension Reform Act of 2004 and (b) a defined benefit gratuity plan in Nigeria, where employees who have spent three years or more in employment are entitled to benefit payments upon retirement. The Corporation contributed $2.2 million to the defined contribution plans in 2014 (2013 – $0.7 million) and increased its liability to staff with respect to defined benefits plans by $0.1 million in 2014 (2013 – $0.6 million). These adjustments were charged to the statement of comprehensive loss.

20. Share capital

(a) Authorized

The Corporation has authorised share capital of an unlimited number of common shares, without par value.

(b) Common shares issued

The following table discloses the movement in share capital for the year ended December 31, 2014.

	Number of shares	Amount
Balance, beginning of year	106,053,620	5,714
Issued to Oando PLC	650,785,739	848,556
Issued for private placement	35,070,063	44,543
Issued on Medal Oil acquisition	3,491,082	3,774
Exercise of options	18,709	20
Balance, end of year	795,419,213	902,607

The following table discloses the movement in share capital for the year ended December 31, 2013

	Number of shares	Amount
Balance, beginning of year	106,053,528	5,714
Issued on exercise of warrants	92	-
Balance, end of year	106,053,620	5,714

All common shares are issued and fully paid.

The following summarizes significant changes to share capital in the year ended December 31, 2014:

- In 2014, $867 million of principal, $14.9 million of accrued interest, and $48 million of financing fees was exchanged for 650,785,739 common shares of OER and 325,392,869 warrants (refer to Note 17). Of the $929.9 million conversion amount, $126.4 million was allocated to the warrants and recorded as a derivative financial liability and the residual amount plus the settlement of the conversion feature on borrowings was recorded as share capital. Refer to Note 8 on reclassification of warrants to equity.

- On February 26, 2014, the Corporation closed a $50 million private placement with arm's length investors issuing 35,070,063 common shares of OER and 17,535,031 warrants. Of the $50 million in gross proceeds, $5.4 million was allocated to the warrants and recorded as a derivative financial liability and the residual amount of $44.5 million was recorded as share capital. Transaction costs associated with the private placement were $7.3 million; of this, $6.5 million was allocated to share capital and netted against the share capital amount and the remaining $0.8 million was allocated to the warrants was expensed in the period pursuant to the Corporation's accounting policy for transaction costs.

- On July 11, 2014, the Corporation completed the acquisition of Medal Oil and satisfied the purchase consideration of $5 million satisfied through the issuance of 3,491,082 common shares and 1,745,541 warrants; $3.7 million was allocated to share capital and the $1.3 million to warrants.

(c) Earnings per share

For the year ended December 31, 2014, the basic earnings per share was calculated by dividing the Corporation's net income / (loss) by the weighted average number of ordinary shares outstanding during the year. In determining the diluted EPS for 2014, the impact of warrants have been excluded as their impact is antidilutive. In determining the diluted EPS for 2013, the impact of options, warrants, and restricted share units have been excluded as their impact is antidilutive. The total number of instruments that have been excluded from the

diluted earnings per share calculations for the year ended December 31, 2014 due to their antidilutive impact is 355,083,441 (2013 – 15,669,276).

The following table presents the basic and diluted earnings per share for the years ended December 31, 2014 and 2013:

	December 31, 2014			December 31, 2013		
	Net income	Average number of shares	Earnings per share (in dollars)	Net income	Average number of shares	Earnings per share (in dollars)
Basic earnings per share	(320,041)	601,004,901	(0.53)	(38,230)	106,053,620	(0.36)
Diluted earnings per share	(320,041)	601,004,901	(0.53)	(38,230)	106,053,620	(0.36)

(d) Stock-based compensation

Stock Options

The Corporation has granted options for the purchase of common shares to its directors and selected employees. The aggregate number of shares that may be issuable pursuant to options granted under the Corporation's Stock Option Plan will not exceed 10% of the issued common shares of the Corporation at the date of grant. No more than 5% of the issued shares of the Corporation may be granted to any one optionee. The options are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the options may not be less than the greater of $0.10 and the market price, subject to all applicable regulatory requirements. Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	December 31, 2014		December 31, 2013	
	Number of options ('000)	Weighted Average exercise price[1]	Number of options ('000)	Weighted Average exercise price[1]
Balance, beginning of year	7,810	1.12	8,155	1.12
Granted	600	1.77	-	-
Forfeitures	-	-	(345)	1.08
Balance, end of year	8,410	1.17	7,810	1.12

[1] *Exercise price is denominated and presented in Canadian dollars*

Out of 8,410,000 outstanding options, 5,206,670 options were exercisable at December 31, 2014 (2013 – 2,603,333). On August 18, 2014 an aggregate 600,000 stock options were issued to three directors. The stock options have an exercise price of C$1.77 and expire on August 18, 2019. In 2014, the fair value of each option granted was determined at their respective grant date, using the Black-Scholes option pricing model and the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 88.0%, risk-free interest rate of 0.67%, and an expected life of 5 years. In 2012, the fair value of each option granted was determined at their respective grant date, using the Black-Scholes option pricing model and the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 84.3%, risk-free interest rate of 0.62%, and an expected life of 5 years. In 2012, the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 78%, risk-free interest rate of 0.57% were utilized in valuing the option. Options granted vest in three tranches with one third vesting in each of as outlined in the table below and there are no market performance conditions attached to the share option grants. The volatility was estimated considering the historical volatility of the Corporation' share price over the most recent period that is commensurate with the expected option term. Where the Corporation does not have sufficient information on its own historical volatility, due to it being a newly listed entity, the historical volatility of similar peer companies is also considered.

Grant to Vest	Expiry date	Exercise price[1]	Number of options	
			2014	2013
2012 – 2019	August 18, 2019	1.12	8,410,000	7,810,000

[1] *Exercise price is denominated and presented in Canadian dollars*

For the share options outstanding at the end of the period, the range of exercise prices is between $1.08 and $1.77 CAD and the weighted average contractual life of the share options outstanding is 3.6 years. During the year ended December 31, 2014, the Corporation recorded $0.8 million related to stock based compensation expense (2013 – $2.2 million).

Restricted share units

On July 24, 2012, 2,000,000 Restricted Share Units ("RSUs") were granted to an officer of the Corporation. The restricted share units vest as follows:

- 1/3 vested on July 24, 2013;
- 1/3 would have vested on July 24, 2014 if the closing price on the TSX of the Common Shares during any consecutive five trading day period during the year between July 24, 2013 and July 24, 2014 had exceeded $2.50 CAD; and
- all of the RSUs not already vested will vest on July 24, 2015 provided that the closing price on the TSX of the Corporation's shares, during any consecutive five (5) trading day period during the year between July 24, 2014 and July 24, 2015, exceeds $3.50 CAD.

The above vesting condition represents a market performance condition and as such, the valuation of the share units at grant date considered the impact of this market performance condition. The fair value of restricted share units at the grant date was $2,000,000 and the fair value was established by reference to the close price of the shares on the date of grant. The market performance condition did not have a significant impact on the valuation.

During the year ended December 31, 2014, no restricted share units vested (2013 - 666,667). Shares relating to previously vested units have not been issued as at December 31, 2014. There have been no changes in the number of restricted share units outstanding in 2014. The fair value of the restricted share units will be recognized over the vesting period, which resulted in $0.2 million in expense being recognized for the year ended December 31, 2014 (2013 - $0.9 million).

21. Financial instruments and risk management

(a) Financial instruments

A summary of the financial assets, by classification, is as follows:

	December 31, 2014			December 31, 2013		
	FVTPL[1]	Loans and Receivables	Total	FVTPL	Loans and Receivables	Total
Cash and cash equivalents	-	31,363	**31,363**	-	12,677	**12,677**
Restricted cash	-	48,481	**48,481**	-	4,846	**4,846**
Trade and other receivables[2]	-	227,858	**227,858**	-	37,738	**37,738**
Derivative financial instruments	299,949	-	**299,949**	-	-	**-**
Finance lease receivable	-	195,727	**195,727**	-	-	**-**
Other long term receivables	-	76,659	**76,659**	-	135,969	**135,969**

[1]Fair value through profit or loss is referenced as "FVTPL"

[2]Prepaid expenses of $11.1 million have been excluded from Trade and other receivables.

A summary of the financial liabilities, by classification, is as follows:

	December 31, 2014			December 31, 2013		
	FVTPL[1]	Other financial liabilities	Total	FVTPL[1]	Other financial liabilities	Total
Trade and other payables	-	387,533	**387,533**	-	213,169	**213,169**
Derivative financial instruments	-	-	**-**	2,555	-	**2,555**
Due to Oando PLC	-	47,272	**47,272**	-	47,272	**47,272**
Borrowings	-	801,606	**801,606**	-	620,875	**620,875**

[1]*Fair value through profit or loss is referenced as "FVTPL"*

(b) Financial risk management

The Corporation's activities expose it to a number of financial risks including market risk (including foreign exchange risk, price risk and interest rate risk), credit risk, and liquidity risk. The Corporation manages market risk by entering into financial commodity contracts to hedge a portion of production and reduce the volatility of operating cash flows. The Corporation manages credit risk associated with customers by analyzing the credit risk for each customer before standard payment and delivery terms and conditions are offered. The Corporation manages liquidity risk through working capital and debt management activities.

Market risk

The Corporation is exposed to foreign exchange risk, price risk, and interest rate risk. The Corporation's exposure to foreign exchange risks from financial instruments would not have significant impact on income before tax. The Corporation is exposed to price risk associated with financial commodity hedges and interest rate risk from variable rate borrowings. The table below provides a summary of the impact of changes in crude oil prices and interest rates on income before tax, with all other variables held constant.

Instrument	Sensitivity Range	Income / (Loss) Increase in Variable	Income / (Loss) Decrease in Variable
Financial commodity contracts	+/- $10 per barrel change in Brent crude oil price	(76,790)	83,934
Variable rate borrowings	+/- 1% change in Libor interest rate applied to debt	(3,619)	3,723

Credit risk

The Corporation's credit risk arises primarily from cash and cash equivalents, trade and other receivables, finance lease receivable, and other long term receivables. The maximum exposure to credit risk is the carrying value of each class of financial asset included in the table below. The Corporation does not hold any collateral as security.

	Note	As at December 31, 2014	As at December 31, 2013
Current financial assets			
Cash and cash equivalents	(a)	31,363	12,677
Trade and other receivables	(b)	227,858	37,738
Derivative financial instruments	12	299,949	-
		559,170	50,415

Non-current financial assets			
Finance lease receivable	(c)	195,727	-
Other long term receivables	(d)	76,659	135,969
Restricted cash	(a)	48,481	4,846
		320,867	**140,815**

(a) Cash and cash equivalents

The Corporation is exposed to credit risk on cash and cash equivalents deposited with various financial institutions. Credit risk associated with cash and cash equivalent balances, including restricted cash balances, can be assessed by reference to external credit ratings of these financial institutions. The following table discloses the credit ratings of banks and financial institutions where the Corporation holds its cash and cash equivalents.

	As at December 31, 2014	As at December 31, 2013
AA-	54,189	56
A+	107	-
B+	3,723	12,598
B	21,738	4,457
B-	-	-
Non-rated	87	412
	79,844	17,523
Less: Restricted cash[1]	(48,481)	(4,846)
Cash and cash equivalents	**31,363**	**12,677**

[1]Restricted cash balances have been separately disclosed in the statement of financial position. These balances related to restricted cash balances required as part of the $450 million and $350 million loan facilities. Refer to Note 17 for details. Source – Fitch ratings

(b) Trade and other receivables

	As at December 31, 2014	As at December 31, 2013
Trade receivables	55,017	8,357
Related party receivables (Note 23)	94,006	18,582
Indemnification asset	21,470	-
Current portion of joint venture receivables	18,706	-
Other receivables	38,659	10,799
	227,858	**37,738**

For trade receivables, the Corporation analyzes the credit risk for each customer before standard payment and delivery terms and conditions are offered. Trade receivables are due for payment with 30 days terms. As at December 31, 2014, an additional provision of $0.7 million was recorded during the period relating to receivables from the Rivers State Government of Nigeria. No other provisions for impairment for trade receivables were recorded and no other trade receivables were past due. The Corporation's major customers include subsidiaries of international oil companies, Nigerian government organizations and joint ventures. The Corporation earned the majority of its revenue from Eni Trading and Shipping S.p.A, Vitol SA, ConocoPhillips (UK) Limited and Nigeria Liquefied Natural Gas Limited "NLNG". In the year ended December 31, 2014, Eni Trading and Shipping S.p.A, Vitol SA, ConocoPhillips (UK) Limited and NLNG accounted for 25%, 23% 20% and 12% respectively, of gross revenue before royalties (2013: 100% to Eni Trading and Shipping S.P.A). The carrying amount of the Corporation's trade receivables are denominated in USD.

Refer to Note 23 for disclosures related to related party receivables. The indemnification asset relates to an indemnification provided by the seller for uncertain tax provisions inherited on the COP acquisition (refer to Note 5 and 6); the offsetting tax liability is recorded in the current tax payable line. The current portion of joint venture receivable relates to an arrangement with a joint venture party on OML 13. Other receivables relates to advances to vendors and joint venture partners, $40.4 million of this amount relates to cash call advances to joint venture partners and $13.1 million relates to amounts due from bankers on realized portion of commodity contracts.

(c) Finance lease receivable

The Corporation is a party to a power purchase agreement whereby, through a joint operation, the Corporation delivers power from the Kwale plant and also has the right to use the plant for eleven and a half years in return for an agreed series of payments from National Electric Power Authority (now Power Holding Company of Nigeria). Refer to Note 9 for further details.

(d) Other long term receivables

Other long term receivables are comprised of underlift receivable, joint venture receivables, and long-term prepaid expenses (refer to Note 13 for details). On completion of the Oando Reorganization on July 24, 2012, the Corporation retained the contractual rights to receive the cash flows associated with $72.7 million of the underlift receivable. However, the Corporation assumed a contractual obligation to pay a portion of those cash flows to Oando PLC and recognized a long term payable of $47.3 million on the statement of financial position. As part of the terms of the payable, the Corporation has no obligation to pay amounts to Oando PLC unless it collects the equivalent amounts from the original receivable. Therefore, the net credit risk exposure relating the $72.7 million underlift receivable net of the $47.3 million long term payable to Oando PLC is $25.4 million as at December 31, 2014. However, the Corporation as at December 31, 2014, has included $25.4 million (2013 - Nil) of the under lift receivable in bad debt expense; the carrying amount of this receivable at December 31, 2014 is $47.3 million. Other long term receivables also include a joint venture receivable of $27.9 million. In 2014, the Corporation has included $18.8 million (2013 - Nil) of this joint venture receivable in bad debt expense; the current portion and long-term portion of this receivable totaling $46.5 million represent the maximum credit risk exposure on this instrument.

Liquidity risk

Cash flow forecasting is performed by management on a regular basis. Cash flow forecasts are monitored to ensure that the Corporation has sufficient cash to meet operational needs while also ensuring that the Corporation has sufficient cash resources to meet future contractual commitments. The Corporation has significant commitments from ongoing operations and these have increased as a result of the COP Acquisition. In order to generate additional liquidity the Corporation has completed a number of debt and equity transactions since year end. Refer to Notes 17 and 20 for further details. Also refer to Note 1 for going concern discussion.

The following are the contractual maturities of financial liabilities, including estimated interest payments as at December 31, 2014:

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings[1,2]	975,984	641,628	140,511	138,321	55,524
Trade and other payables	387,533	387,533	-	-	-
Current tax payable	204,765	204,765	-	-	-
Due to Oando PLC	47,272	-	47,272	-	-
	1,615,554	1,233,926	187,783	138,321	55,524

The following are the contractual maturities of financial liabilities, including estimated interest payments as at December 31, 2013:

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings[1]	665,967	496,823	93,141	76,003	-
Trade and other payables	213,169	213,169	-	-	-
Current tax payable	1,074	1,074	-	-	-
Due to Oando PLC	47,272	-	47,272	-	-
Derivative financial instruments	2,555	770	1,785	-	-
	930,037	711,836	142,198	76,003	-

[1]The cash out flows associated with borrowings include interest expense based on the interest rates included in the underlying agreements. Where interest rates are floating, the rate applicable at December 31, 2014 has been used. Cash out flows associated with borrowings assume principal payments are paid in accordance repayment schedules before cash sweeps – refer to Note 17 for loan repayment requirements regarding excess cash flow from oil and gas sales.

[2] As at December 31, 2014, the Corporation determined that it was in breach on the $450 million loan (refer to Note 17 for further details). As a result, the Corporation has classified all borrowings associated with the loan as current. The table above has been adjusted to assume that all borrowings associated with the $450 million loan are due in less than 1 year.

22. Capital management

The Corporation manages its capital in a manner consistent with the risk characteristics of the assets it holds. All financing, including equity and debt, are analyzed by management and approved by the Board of Directors.

The Corporation's objectives when managing capital are:

(a) to safeguard the Corporation's ability to continue as a going concern and provide returns for shareholders; and

(b) to facilitate the acquisition or development of oil and gas projects consistent with the growth strategy of the Corporation.

The Corporation is meeting its objective of managing capital through its detailed review and performance of due diligence on all potential acquisitions, in addition to preparing short-term and long-term cash flow analysis to ensure an adequate amount of liquidity and monthly review of financial results.

The Corporation funds its share of expenditures of all commitments from existing cash and cash equivalent or restricted cash balances received primarily from issuances of shareholders' equity or debt financing. For the $450 million loan and the $350 million loan the Corporation is required to maintain cash balances with the lenders, hedge a portion of production, and meet certain debt covenants which include financial ratio tests. As at December 31, 2014, the Corporation determined that it was in breach of the $450 million loan. Refer to Note 17 for further details.

The Board of Directors regularly reviews the Corporation's cash flow analysis and assesses the timing and need for additional equity or debt financing. The Corporation's results will impact its ability to access the capital necessary to meet expenditure commitments. There can be no assurance that equity or debt financing will be available or sufficient to meet those commitments, or if equity or debt financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse impact on the Corporation's financial condition, results of operations and prospects. Refer to Note 1. There have been no changes in the Corporation's approach to capital management from the previous year.

	As at December 31, 2014	As at December 31, 2013
Total borrowings (Note 17)	801,606	620,875
Less: cash and cash equivalents	(31,363)	(12,677)
Net debt	770,243	608,198
Total equity	1,010,017	311,330
Total capital	**1,780,260**	**919,528**

23. Related party transactions

The ultimate parent of the Corporation is Oando PLC, incorporated in Nigeria. At December 31, 2014, Oando PLC owned 93.8% of the Corporation's share capital. There are other companies that are related to Oando PLC through common shareholdings or common directorships with Oando PLC The operations of the Corporation have historically been financed by Oando PLC and recognized as intercompany transactions. As at December 31, 2014, the Corporation had the following outstanding related party balances with Oando PLC:

Accounts receivable

	As at December 31, 2014	As at December 31, 2013
Accounts receivable from Oando PLC	94,006	18,582
	94,006	**18,582**

Accounts payable

	As at December 31, 2014	As at December 31, 2013
Under lift payable to Oando PLC	47,272	47,272
Loan payable to Oando PLC	-	401,000
Payable to Oando PLC (Equator loan)	11,098	9,914
Payable to Oando PLC for COP Acquisition	-	7,612
Oando Energy Services	-	1,228
Oando PLC (Payments on behalf of the Corporation)	50,679	37,463
Payables to Oando PLC (Qua Ibo and ORPSL acquisition)	-	9,260
Related party payables	**109,049**	**513,749**

Related party agreements are as follows:

(i) Shareholder Agreements dated July 24, 2012 between Oando PLC and Oando Netherlands Holding 2 BV (Holdco 2) in respect of Oando Akepo Limited (Oando Akepo); Oando PLC and Oando Netherlands Holding 3 BV (Holdco 3) in respect of Oando Petroleum Development Company Limited ("OPDC2") (which owns 95% of the shares of OPDC); Oando PLC and Oando OML 125 & 134 BVI in respect of Oando OML 125&134. Shareholder agreements dated April 30, 2013 between Oando PLC and Oando Netherlands Holding 4 BV (Holdco 4) and Oando Netherlands Holding 5 BV (Holdco 5) in respect of Oando Qua Ibo Limited (OQIL) and Oando reservoir and Production Services Limited (ORPSL), respectively. Shareholder agreements dated July 31, 2014 between Oando PLC and Oando 60, 61, 62 & 63 Holding BV (Holdco 60-63), Oando OPL 214 Holding BV (Holdco 214), and Oando OML 131 Holding BV (Holdco 131) in respect of Phillips Oil Company Nigeria Limited (POCNL – name subsequently changed to Oando Hydrocarbon Limited), Phillips Deepwater Exploration Nigeria Limited (PDENL – name subsequently changed to Oando Deepwater Exploration Limited), and Conoco Exploration and Production Nigeria Limited (CEPNL – name subsequently changed to Oando 131 Limited), respectively Oando PLC owns Class A shares and each of Holdco 2, Holdco 3, Oando OML 125&134 BVI, Holdco 4, Holdco 5, Holdco 60-63, Holdco 214, and Holdco 131 (together the "Holdco Associates") owns Class B shares, in each of Oando Akepo, OPDC2, Oando OML 125&134, OQIL, ORPSL, POCNL, PDENL, and CEPNL (the "Operating

Associates"), respectively. Ownership of the Class A shares by Oando PLC provides it with 60% voting rights but no rights to receive dividends or distributions from the applicable Operating Associate, except on liquidation or winding up. Ownership of the Class B shares entitles the Holdco Associates (each an indirectly wholly-owned subsidiary of the Corporation) to 40% voting rights and 100% dividends and distributions, except on liquidation or winding up. Pursuant to each of these agreements, Oando PLC, on the one hand, and the respective Holdco Associates, on the other hand, agreed to exercise their respective ownership rights in accordance with the manner set forth in the shareholder agreements. Pursuant to the shareholder agreements, each of Oando PLC and the respective Holdco Associate is entitled to appoint two directors to the board of Oando Akepo, OPDC2, Oando OML 125&134, OQIL, ORPSL, POCNL, PDENL, and CEPNL respectively, with the Holdco Associate being entitled to appoint the Chairman, who has a casting vote. In addition, the applicable Holdco Associate has the power to compel Oando PLC to sell its Class A shares for nominal consideration. The shareholder agreements in respect of most of the Operating Associates are filed on www.sedar.com under "Oando Energy Resources Inc.". No amounts have been paid or are due to be paid by either party to the other under the shareholder agreements. During the period, the Corporation didn't incur any amounts under this agreement (2013 - Nil).

(ii) Right of First Offer Agreement ("ROFO Agreement") dated September 27, 2011, as amended, between Oando PLC and the Corporation. Pursuant to the ROFO Agreement, the Corporation has the right to make an offer to Oando PLC in respect of certain assets owned by Oando PLC in accordance with the terms of the ROFO Agreement. No amounts have been paid or are due to be paid under the ROFO Agreement. On September 27, 2013, the ROFO agreement between OER and Oando PLC was amended. The amendment terminates the ROFO agreement on the first date on which Oando PLC no longer holds, directly or indirectly, at least 20% of the issued and outstanding common shares of OER. Prior to the amendment, the right of first offer in the ROFO would have terminated on September 27, 2013. The Corporation has no amounts due to Oando PLC under this agreement (2013 - $9.3 million). During the year, the Corporation didn't incur any amounts under this agreement (2013 - Nil).

(iii) Referral and Non-Competition Agreement dated July 24, 2012 between Oando PLC and the Corporation. Pursuant to this agreement, Oando PLC is prohibited from competing with the Corporation except in respect of the assets referred to in the ROFO Agreement until the later of July 25, 2014 and such time as Oando PLC owns less than 20% of the shares of the Corporation. Oando PLC is also required to refer all upstream oil and gas opportunities to the Corporation pursuant to this agreement. In addition, in the event that Oando PLC acquired any upstream assets between September 27, 2011 and July 24, 2012, Oando PLC is required to offer to sell these assets to the Corporation at a purchase price consisting of the amount paid by Oando PLC for the assets, together with all expenses incurred by Oando PLC to the date of the acquisition by the Corporation, plus an administrative fee of 1.75%. The Corporation has no amounts due to Oando PLC under this agreement in respect of the COP acquisition (2013 – $7.6 million).

(iv) Cooperation and Services Agreement dated July 24, 2012 between Oando PLC and the Corporation. Pursuant to this agreement, Oando PLC agreed, until the later of July 24, 2017 and such time as Oando PLC owns less than 20% of the shares of the Corporation, to provide certain services to the Corporation, including in respect of legal services in Nigeria, corporate secretariat and compliance services in Nigeria, corporate finance, procurement, corporate communications, internal audit and control, information technology, human capital management, environment, health, safety, security and quality and administrative services. These services are to be provided to the Corporation on the basis of the cost to Oando PLC plus a margin of 10%. The independent directors of the Corporation are entitled to approve all such cost allocations. At any time, the Corporation may elect to terminate any of the services under the agreement provided such notice is effective only on December 31 or June 30 of any year and such notice has been given at least 60 days in advance. Once terminated, Oando PLC shall have no further obligation to make available the services as have been so terminated and equitable adjustments shall be made as to the cost for the remaining services, if any, that are continued to be supplied by Oando PLC to the Corporation under the agreement. As part of the costs incurred under the agreement, the Corporation incurred $5.1 million in aviation costs to an entity associated with a director of the Corporation (2013 – $2.1 million). During the period, the Corporation incurred $36 million under this agreement (2013 - $6.2 million).

(v) Transitional Services Agreement dated July 24, 2012 between the Corporation, Oando Servco Nigeria and OEPL. OEPL is a related entity of the Corporation. Pursuant to this agreement, the Corporation and Oando Servco agreed that Servco would provide services to OEPL until January 24, 2014 for no more than 10% of the employees' normal working hours per month. OEPL is required to pay Oando Servco's costs of providing such services. The Corporation has $17.7 million due from OEPL (2013 – $7.3 million), a subsidiary Oando PLC under this agreement in respect of services provided.

In addition to those transactions noted above, transactions with related parties also included $0.1 million related to insurance services provided by Scib Nigeria & Company Ltd and $0.5 million related to aircraft services provided by Triton Aviation.

Key Management Personnel Compensation

	For the year ended December 31, 2014	For the year ended December 31, 2013
Salaries and other short term employment benefits	5,558	2,566
Restricted share units	221	840
Share based payments	776	2,270
Key management personnel compensation	6,555	5,676

Key management includes the Board of Directors and Senior Management of the Corporation.

24. Revenue

	For the Year ended December 31, 2014	For the Year ended December 31, 2013
Oil and gas sales	461,931	137,952
Less: royalties	(55,592)	(10,741)
Oil and gas sales, net of royalties	406,339	127,211
Oil transportation tariffs and other	4,932	-
Kwale-Okpai IPP power sales	10,151	-
Revenue, net of royalties	**421,422**	**127,211**

The Corporations major customers include subsidiaries of international oil companies, Nigerian government organizations, and joint venture businesses. The Corporation earned the majority of its revenue from Eni Trading and Shipping S.p.A, Vitol SA, ConocoPhillips (UK) Limited and Nigeria Liquefied Natural Gas Limited “NLNG”. In the year ended December 31, 2014, Eni Trading and Shipping S.p.A, Vitol SA, ConocoPhillips (UK) Limited and NLNG accounted for 25%, 23%, 20% and 12% respectively of gross revenue before royalties (2013 – 100% to Eni Trading and Shipping S.P.A).

Crude oil losses - OML 56 (Ebendo Marginal Field)

The Corporation experiences production losses due to crude oil theft. For the year ended December 31, 2014, crude oil losses represented approximately $7.9 million (2013 – $9.3 million), which equates to 18% (2013 – 25%) of oil production for the year ended December 31, 2014. Revenue has not been recognized for crude oil losses. Crude oil losses are estimated using allocations provided to the Corporation by NAOC.

Crude overlift by NNPC – OML 125 (Abo Field)

Nigeria Agip Exploration Limited (“NAE”) and the Corporation (through Oando OML 125 & 134) commenced arbitration proceedings concerning the overlifting of oil by the NNPC in relation to OML 125. The dispute concerns the manner in which cost oil and profit oil has been computed, allocated and administered under the relevant PSC since 2006.

In October 2011, an arbitral tribunal seated in Nigeria found that the NNPC had overlifted and granted the Corporation declaratory and injunctive relief with damages to be subsequently assessed. On July 9, 2014 a final award was issued by the arbitration tribunal in favour of NAE and the Corporation entitling them to collect amounts overlifted by the NNPC. The arbitration tribunal assessed damages suffered by NAE and the Corporation as at January 31, 2014. The Corporation’s share of the damages awarded under the final award is $72.9

million plus interest on damages, legal and expert costs, interest on legal and expert costs, and additional interest from the date the award was granted until payment.

NNPC has not complied with the final award and continues to overlift. On August 25, 2014, NAE and the Corporation filed an action at the Federal High Court for the recognition and enforcement of the partial and final awards. On October 2, 2014, NNPC filed a motion asking the court to dismiss that action. The matter remains pending before the courts

From October 1, 2013, the Corporation has deferred the recognition of revenue for oil production that is subject to overlift by the NNPC. In addition to the $14.5 million of oil production from the Abo field not recognized as a result of this policy in 2013, $21 million has not been recognized in revenue in the year ended December 31, 2014. The Corporation continues to defer the recognition of revenue for oil production that is subject to overlift by the NNPC and will do so until it is determined that the economic benefits of the overlifted amounts will accrue to the Corporation. However, the Corporation as at December 31, 2014, has included $25.4 million (2013 - Nil) of the under lift receivable in bad debt expense. Refer to Note 13 on other long term receivables.

25. General and administrative expenses

	For the year ended December 31, 2014	For the year ended December 31, 2013
Consulting and professional fees	35,564	1,107
Office and administrative expenses	7,703	3,943
Employee benefit expenses	16,788	8,412
Share based payment expenses	997	3,110
Travel expenses	5,816	3,483
Other expenses	3,085	2,091
	69,953	**22,146**

26. Net financing income (expense)

	For the year ended December 31, 2014	For the year ended December 31, 2013
Foreign exchange gain	2,157	508
Interest income	3,754	758
Other income	960	-
Financing income	**6,871**	**1,266**
Interest expense	(130,640)	(55,360)
Decommissioning liabilities: Unwinding of discount	(4,791)	(2,075)
Foreign exchange loss	-	(164)
Less: Borrowing costs capitalized on qualifying assets	3,028	2,318
Finance expenses	**(132,403)**	**(55,281)**
Net financing expense	**(125,532)**	**(54,015)**

27. Supplemental cash flow information

The following table details the changes in non-cash working capital:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Trade and other receivables	(201,173)	(5,983)
Inventory	(4,851)	(464)
Other long term receivables	59,310	(58,604)
Trade and other payables	174,364	84,352
Long term payables	33	755
Consideration for OQI and OPSL (non-cash)	-	(1,180)
Less: Non-cash items included in working capital	(4,609)	(33,591)
Changes in non-cash working capital	**23,074**	**(14,715)**
Operating activities	14,784	24,777
Financing activities	(6,006)	-
Investing activities	14,296	(39,492)
Changes in non-cash working capital	**23,074**	**(14,715)**

	For the period ended December 31, 2014	For the period ended December 31, 2013
Interest paid	59,735	15,462
Income taxes paid	38,857	(5,144)

In addition to the above, $929.9 million of owing under the Oando PLC loan facility was converted into equity (common shares) was a significant non-cash item recorded in the year ended December 31, 2014 – refer to Notes 17 and 20 for further details.

28. Commitments

The following table represents the contractual commitments of the Corporation at December 31, 2014:

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings and Interest Payable[1,3]	975,984	641,628	140,511	138,321	55,524
Trade and other payables	387,533	387,533	-	-	-
Current Tax payable	204,765	204,765	-	-	-
Other long term payables	47,272	-	47,272	-	-
Derivative financial instruments	-	-	-	-	-
Purchase commitments	24,972	24,972	-	-	-
Budgeted capital expenditure[2]	138,680	138,680	-	-	-
	1,779,206	**1,397,578**	**187,783**	**138,321**	**55,524**

[1]Interest payable is expected to be $43 million over the remainder of the contractual term of the loan, calculated using interest rates applicable to borrowings at year end. Cash out flows associated with borrowings assume principal payments are paid in accordance repayment schedules before cash sweeps – refer to Note 17 for loan repayment requirements regarding excess cash flow from oil and gas sales.

[2]The capital expenditure budget represents the estimated level of required funding to support the planned growth, development and maintenance of the Corporation's interest in oil and gas fields.

[3]As at December 31, 2014, the Corporation determined that it was in breach on the $450 million loan (refer to Note 17 for further details). As a result, the Corporation has classified the borrowings associated with this loan as current. The table above has been adjusted to assume that the borrowings associated with the $450 million loan are due in less than 1 year.

The commitments for the next five years are expected to be funded from cash flow from operations of the Corporation, as well as debt and equity financing from external parties. Refer to going concern issue at Note 1.

29. Contingencies

(a) Bilabri Oil Field (OML 122)

In 2007, the Corporation transferred, under the Bilabri Settlement Agreement, the full responsibility for completing the development of the Bilabri oil field in OML 122 to Peak Petroleum Industries (Nigeria) Limited ("Peak"). Peak specifically assumed responsibility for the project's future funding and historical unpaid liabilities. In the event that Peak fails to meet its obligations to the projects creditors, it remains possible that the Corporation may be called upon to meet the debts. Therefore, a contingent liability of $21.7 million exists at December 31, 2014 (2013 – $21.7 million). The Corporation has assessed the likelihood that cash outflows will be required to settle the obligation as remote, and therefore, no liability has been recorded in the financial statements at December 31, 2014 (2013 – Nil).

(b) OPL 321 and OPL 323

In January 2009, the Nigerian government voided the allocation of OPL 323 and OPL 321 to the operator, Korea National Oil Corporation (KNOC) and allocated the blocks to the winning group of the 2005 licensing round comprising ONGC Videsh, Equator and Owel. KNOC brought a lawsuit against the government and a judgement was given in their favor. The government and Owel appealed the judgement. The case has now gone to the Supreme Court. In 2009, the government refunded the signature bonus paid by the Corporation. The Corporation has not recognized a liability to the government for the blocks subsequent to the refund of the signature bonus. This is due to the uncertainty surrounding the timing of the settlement of the ongoing dispute as well as to the amount to be paid upon settlement. Also, there is no obligation to pay the signature bonus as the Corporation can opt in or out once the legal dispute is settled. The Corporation has declared its intention to continue to invest in the blocks. The Corporation has impaired the carrying value and currently carries both assets at Nil (2013 - $1.9 million).

The Corporation originally bid as member of a consortium for OPL 321 and 323. It was granted a 30% interest in the Production Sharing Contracts "PSCs" but two of its bidding partners were not included as direct participants in the PSCs, as a result, the Corporation granted those bidding partners 3% and 1% carried economic interests respectively in recognition of their contribution to the consortium. During 2007, it was agreed with the bidding partners that they would surrender their carried interests in return for warrants in the Corporation and payments of $4 million and $1 million. The warrants were issued immediately but it was agreed that the cash payments would be deferred. The warrants have expired. In the first instance, payment would be made within 5 days after the closing of a farm out of a 20% interest in OPL 323 to a subsidiary of BG Corporation PLC (BG). However, BG terminated the farm out agreement. Under the successor obligation, the Corporation issued loan notes with an aggregate value of $5 million which are redeemable out of the first $5 million of proceeds received on the occurrence of any one of the following events related to OPL 321 or OPL 323:

- A farm out with another party;
- A sale or partial sale of the interests; and
- A sale or partial sale of subsidiaries holding the relevant PSCs.

During 2010, one bidding partner successfully sued the Corporation in an arbitration tribunal for $1 million. This has been paid in full. On the advice of legal counsel, the Corporation maintains that the remaining $4 million owed is not yet due and that any second arbitration hearing can be successfully defended. If none of the above events occur, it is assumed that the Corporation will not need to settle the $4 million loan note and can defer payment indefinitely. The above contingencies are based on the best judgements of the Board and management.

The Corporation has been involved in settlement negotiations in respect of the dispute between KNOC, Owel and the Nigerian Government. The negotiating parties have agreed in principle to restructure the working interests in order to accommodate additional members into the new consortium being formed pursuant to the negotiations.

30. Events occurring after the reporting period

2015 Early Settlement and Reset Arrangement

On February 6, 2015 the Corporation entered into an early settlement and reset arrangement with hedging counterparties associated with the Acquisition and Legacy Asset hedges which resulted in the receipt of $234 million that was used to reduce outstanding debt. Specifically, $184 million from the settlement plus an additional $4 million from cash was paid to reduce outstanding principal on the $450 million loan by $188 million and $51 million was paid to reduce outstanding principal on the $350 million loan.

The arrangement led to a resetting of the Acquisition and Legacy Asset hedges with a fixed price of $65/bbl and strike of $75/bbl, with no changes to the expiry or volumes in the original contract. The effect of the Acquisition and Legacy Asset hedges is to fix the price of crude oil that the Corporation receives, on the specific volumes at $65/bbl until the benchmark price of Dated Brent crude oil reaches $75/bbl. If Dated Brent crude oil price exceeds $75/bbl the Corporation will receive the incremental price above $75/bbl to preserve some upside. As noted above, the original hedges were required by the terms of the $450 million and $350 million loan facilities. The lenders were required to approve the early settlement and reset arrangement.

31. Comparative information

For the year ended December 31, 2014, certain prior period amounts in the statements of comprehensive loss have been reclassified for the purpose of comparability with current period presentation.

Net gains on financial instruments

Fair value gains / losses on financial instruments have been reclassified from financing income and financing expense to conform to the current period presentation. For the year ended December 31, 2013, fair value gains of $3.8 million and fair value loss of $0.2 million were reclassified from financing income and financing expense, respectively, to the net fair value gains / losses on financial instruments category netting to a $3.6 million gain.

Acquisition costs

Acquisition costs have been reclassified from general and administrative expenses to conform to the current period presentation. For the year ended December 31, 2013, acquisition costs of $20.4 million were reclassified from general and administrative expenses to the acquisition costs category.

These reclassifications were necessary to ensure comparability with the current period presentation where fair value gains / losses on financial instruments and acquisitions costs have been separately presented on the statements of comprehensive loss.